

Department of Economic and Social Affairs

**DEVELOPMENT PLANS:
APPRaisal OF TARGETS
AND PROGRESS
IN DEVELOPING COUNTRIES**

W.E.B.
Whitits



**World Economic Survey
1964—Part I**

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New York, 1965

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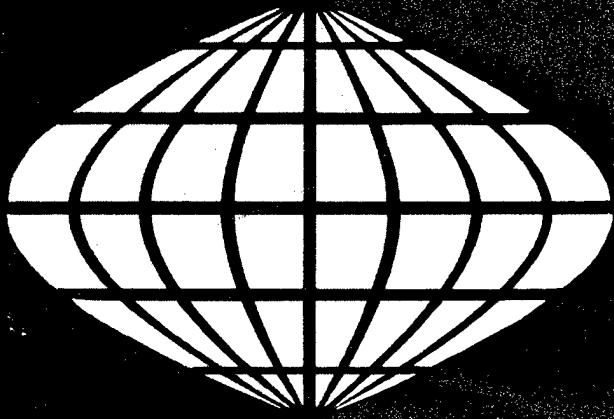
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FOREWORD

TO THE

This report, *World Economic Survey, 1964*,¹ is the seventeenth in a series of comprehensive reviews of world economic conditions published by the United Nations. It is issued in response to General Assembly resolution 118 (II), in which the Secretary-General was requested to prepare an annual review and analysis of world economic conditions and trends. The report is intended to meet the requirements of the Economic and Social Council and other organs of the United Nations for an appraisal of world economic conditions which may serve as a basis for recommendations in the economic field. It is also intended to stimulate interest in and discussion of international economic problems among a more general public audience.

Each year since 1955, the *World Economic Survey* has contained a study of a particular problem in the field of economic development. Among the subjects examined have been economic growth in the first post-war decade, balance of payments problems in relation to economic growth, inflation, post-war commodity trade and policies, experience and policies relating to investment and saving, industrialization and economic development, and foreign trade and economic development.

In its resolution 1708 (XVI), the General Assembly made a series of recommendations regarding intensification of activities in the field of development planning. As an initial step in response to that resolution, a report on *Planning for Economic Development*² was prepared with the assistance of a group of experts appointed by the Secretary-General. That report reviewed the experience gained and the techniques in use in planning for economic development by different countries. A number of studies of national planning experience prepared by the members of the expert group as well as those submitted on request by Governments have recently been issued as volume II of the report.²

In resolution 1708 (XVI), the General Assembly also requested the Secretary-General to examine questions of development planning in one of the issues of the *World Economic Survey*. The Economic and Social Council, too, stated in its resolution 979

(XXXVI) that it looked forward to the publication of a study on economic planning in the developing countries in an issue of the *World Economic Survey*. In accordance with these resolutions, part I of the present report focuses attention on development plans and provides an appraisal of targets and progress in the developing countries.

As background to the discussion, chapter 1 examines the major problems and policies which have a bearing on economic progress during the Development Decade. In this connexion, special attention is devoted to identifying critical scarcities which have hampered economic development as well as to national and international measures which have been adopted to overcome them. Chapters 2 to 5 analyse at some length targets and policies contained in the current economic plans of the developing countries. Chapter 2 provides an over-all view of the main characteristics of these plans; by tracing the inter-relationships between the targets established in the plans, it brings out a number of important differences as well as certain similarities in the strategies proposed by various countries. Chapter 3 explores in greater detail the targets for production and manpower and the policies by which these targets are sought to be achieved. The various aspects of foreign trade and payments, which have been of major influence in shaping the over-all character of development plans, are discussed in chapter 4. Chapter 5 scrutinizes the targets and policies formulated in the plans in order to ensure an adequate rate of increase in the supply of resources available for investment. In chapter 6, progress in the implementation of plans is discussed.

Part II of the *Survey*, which is issued as a separate volume, contains a review of recent developments in the world economy and a discussion of a number of topical problems. Chapter 1 provides an over-all view of salient changes in world production and trade between 1963 and 1964. Chapter 2 describes the principal developments in the industrially advanced private enterprise economies and goes on to examine two important current problems—the use of incomes policies for internal stabilization and the difficulties facing the international monetary system in the light of the payments imbalances of the reserve currency countries. Chapter 3 analyses the economic changes that occurred in the developing countries between 1963 and 1964, and takes a closer look at

¹ United Nations publication, Sales No.: 64.II.B.3.

² United Nations, *Planning for Economic Development, Volume II, Studies of National Planning Experience: Part 1, Private Enterprise and Mixed Economies* (Sales No.: 65.II.B.3); *Part 2, Centrally Planned Economies* (Sales No.: 65.II.B.4).

the problem of agricultural lag and food supply and at the difficulties some countries have experienced in maintaining internal balance. Chapter 4 deals with recent trends in the centrally planned countries, highlighting changes that are now under way in the internal mechanisms of economic management and externally in the problems of economic integration among the countries of the Council of Mutual Economic Assistance. Each of the regional chapters sets forth the economic outlook for 1965 as it appeared

at the end of the first quarter of the year, drawing as far as possible on the replies of Governments to the Secretary-General's questionnaire on economic trends, problems and policies, circulated in November 1964.

The *World Economic Survey* is prepared by the Bureau of General Economic Research and Policies of the Department of Economic and Social Affairs in the United Nations Secretariat.

EXPLANATORY NOTES

The following symbols have been used in the tables throughout the report:

Three dots (...) indicate that data are not available or are not separately reported

A dash (—) indicates that the amount is nil or negligible

A blank in a table indicates that the item is not applicable

A minus sign (—) indicates a deficit or decrease, except as indicated

A full stop (.) is used to indicate decimals

A comma (,) is used to distinguish thousands and millions

A slash (/) indicates a crop year or financial year, e.g., 1960/61

Use of a hyphen (-) between dates representing years, e.g., 1961-1963, signifies the full period involved, including the beginning and end years.

Reference to "tons" indicates metric tons, and to "dollars" United States dollars, unless otherwise stated.

The term "billion" signifies a thousand million.

Annual rates of growth or change, unless otherwise stated, refer to annual compound rates.

Details and percentages in tables do not necessarily add to totals, because of rounding.

Unless otherwise stated, Malaysia refers to the former Federation of Malaya. The term "Tanzania" has been used in tables to refer to the United Republic of Tanzania; the data for the United Republic of Tanzania relate to the former country of Tanganyika.

The designations employed and the presentation of the material in this publication do not imply the expression of any opinion whatsoever on the part of the Secretariat of the United Nations concerning the legal status of any country or territory or of its authorities, or concerning the delimitation of its frontiers.

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Chapter 1

PROBLEMS AND POLICIES IN THE DEVELOPMENT DECADE

In designating the current decade as the United Nations Development Decade, the General Assembly emphasized its acceptance of the accelerated economic and social progress of developing countries as an international responsibility. Moreover, by expressing the objective of the Decade in quantitative terms, it established a measure for assessing the endeavour towards fulfilment of this responsibility.¹ The present International Co-operation Year, coming at the mid-point of the Development Decade, presents an opportunity to appraise the progress which has so far been achieved and to reconsider both the national and the international policies which are required for realization of the aim of the Decade. The present study, in reviewing both national plans and measures of developing countries and their implications for international policies, is intended to serve as a background document for such a mid-term appraisal.

The actual growth in income and output of the developing countries during the first part of the nineteen sixties has generally not been sufficient to offer assurance that the target of the Development Decade will be reached. For the developing countries as a whole, the annual rate of growth in gross domestic product over the first four years of the present decade amounted to 4 per cent. Instead of the acceleration that was hoped for, this denoted a deceleration over the pace of advance recorded in the nineteen fifties (*see table 1-1*). Expressed in *per capita* terms, output during recent years has been increasing annually by only 1.5 per cent; this is to be compared with an annual rate of increase of over 2 per cent between 1955 and 1960 and of nearly 3 per cent between 1950 and 1955. A major reason for the weakening in the performance of output compared with the nineteen fifties has clearly been the slow growth of agricultural output experienced by most developing regions. And a paradox of the recent situation has been the acceleration in growth of the volume of merchandise exports combined with a deceleration in imports in conditions of relatively stable terms of trade. These recent trends in production and trade are described and analysed more fully elsewhere in this report. But their broad significance for national and international policies need hardly be stressed.

¹ The objective was defined as the attainment by the developing countries of a minimum annual rate of growth in national income of 5 per cent by the end of the Decade.

Table 1-1. Developing Countries:^a Annual Rates of Growth in Production and Trade, 1950-1964^b
(Percentage)

Item	1950-1955	1955-1960	1960-1964 ^b
Gross domestic product.....	4.9	4.5	4.0
<i>Per capita</i> product.....	2.8	2.1	1.5
Industrial production .....	...	8.1	7.0
Agricultural production: ^c			
Africa ^d .....	...	1.9	2.7
Latin America .....	...	3.9	1.4
Far East ^e .....	...	2.8	2.5
Near East .....	...	4.5	2.7
Export volume	2.6	4.4	5.8
Import volume	5.1	4.1	3.3

Source: Bureau of General Economic Research and Policies of the United Nations Secretariat, based on Statistical Office of the United Nations, *Yearbook of National Accounts Statistics and Monthly Bulletin of Statistics*; United Nations, "Handbook of International Trade Statistics" (mimeographed document E/CONF.46/12/Add.1), and Food and Agriculture Organization of the United Nations, *Monthly Bulletin of Agricultural Economics and Statistics* (Rome).

^a Africa, Asia and Central and South America, excluding centrally planned economies, Japan and the Republic of South Africa.

^b 1960-1963 for gross domestic product, total and *per capita*, and for agricultural production.

^c Crop years.

^d Including the Republic of South Africa.

^e Including Japan.

A balanced appraisal of progress in the first few years of the Decade, however, cannot be made without also taking account of the changes which have been introduced in the field of policies; and in this respect, recent years have seen some important developments. While the new initiatives that have been taken at both the national and the international level have often been too recent to have yet much affected the actual course of events, it is such changes in policy which determine the prospects for better performance in the coming years of the Development Decade.

At the national level, the most striking event of the early nineteen sixties has been the widespread adoption of planning as a tool of economic and social policy. In the nineteen fifties, relatively few developing countries had national plans for economic and social development, though numerous countries had elaborated medium-term programmes for specific

sectors or regions of the economy. Since the turn of the decade, however, almost all of the developing countries—often with the encouragement of national and multilateral agencies concerned with international development assistance—have undertaken the formulation of medium-term or long-term plans as a means of assessing their requirements for sustained growth and of guiding their current policy decisions. Two major events occasioning this upsurge in planning activity were the achievement of independence by many African countries and the launching of the Alliance for Progress in Latin America. A more fundamental and general cause, however, was the widespread realization that the acceleration of economic and social development requires a more long-sighted approach to policy formulation; it has come to be understood that current policy decisions can no longer be made simply in response to the circumstances of the moment but have to contribute actively to bringing about the structural and institutional changes which underlie economic development.

Some important new initiatives have also been taken at the international level in the first few years of the Development Decade. The resources of the International Development Association—through the action of its parent organization, the International Bank for Reconstruction and Development—have recently been augmented in order to broaden the flow of international loans on easy terms to developing countries; and the policies of the International Monetary Fund have been modified in recent years to make more explicit provision for the compensatory financing of short-term export fluctuations. An event of outstanding importance was the convening of the United Nations Conference on Trade and Development and its establishment on a permanent basis; this body has the primary function of promoting the adaptation of international trading and financial relations in order to meet the needs of economic development. Further, in order to enhance the effectiveness of national planning efforts and to ensure the necessary degree of co-ordination between national development and economic assistance policies, various efforts have been made to create an international framework within which plans might be reviewed. The international arrangements for such reviews include the machinery established under the Alliance for Progress, the annual review procedures

under the Colombo Plan and the consortia and consultative groups convened under the auspices of the International Bank for Reconstruction and Development as well as the Organisation for Economic Co-operation and Development. In addition, the Contracting Parties to the General Agreement on Tariffs and Trade have recently constituted machinery for joint study by developed and developing countries of the problems of trade and aid and for their collaboration in the planning of trade and the implementation of export targets.

The concern to reappraise international economic relations in the light of the requirements of economic development has been a common theme running through many of these new initiatives. Undoubtedly, the new machinery and approaches being evolved have greatly strengthened and broadened informed discussion of the appropriate role of international policies. Increasingly, more careful and systematic consideration is being given to the separate elements of which this issue is compounded. In the first place, views about the nature of the key scarcities confronting the developing countries are being gradually clarified. Secondly, both at the national and the global level, the problem of measuring the gap between requirements of key resources and the supplies currently available to developing countries is being given much closer attention. Finally, as an integral part of this latter task, there has been recognition of the need for more informed assessment of the extent to which supplies of key resources can be increased by the developing countries themselves through the pursuit of appropriate domestic policies. Taken together, these elements are essential to the appraisal of international policies.

It cannot yet be said, however, that a consensus has emerged on these separate, though related, issues. While an adequate discussion of all the questions which might be raised in this context is beyond the scope of the present report, the review of national plans and planning experience which it contains does provide some of the background information necessary for such a discussion. In order that the review might be considered in this perspective, it has therefore seemed useful—in the present chapter—to restate the nature of the pivotal scarcities confronting developing countries and to indicate briefly their implications for national and international policies.

Pivotal scarcities and national policies

The pivotal scarcities which confront developing countries in the process of their economic growth can be reduced to three broadly different groups, namely, the supply of domestic saving, the supply of human resources and the supply of key goods and

services. Scarcities in the supply of key goods and services, such as capital goods, food, essential materials, power or transport, arise from the structural imbalances or rigidities which are a characteristic of the economies of developing countries. It

is true that, except for certain goods and services such as power and transport, domestic shortages in supplies of specific commodities can be overcome by means of imports. But when—as is the case for many developing countries—the rate of growth in foreign exchange earnings is also limited by structural obstacles to the diversification and expansion of exports, it may not be possible to alleviate domestic shortages in this way. Thus, the underlying structural rigidities which impede the expansion in production of specific commodities either for export or for the domestic market may manifest themselves in the form of foreign exchange scarcity. This particular shortage is such an important constraint for many developing countries that it is properly identified as a separate scarcity. It is useful to bear in mind, however, that despite its practical importance, it is not a logically distinct category of scarcity.

In any particular developing country, one or the other of these scarcities is likely to constitute the dominant impediment to current economic growth. But among developing countries as well as within any particular country at different periods of its growth, the relative importance of these scarcities varies. For the formulation of appropriate policies at both the national and the international level, it is therefore necessary to identify the particular scarcities which, in the actual circumstances currently confronting each developing country, are of primary importance in impeding growth.

THE SUPPLY OF DOMESTIC SAVING

Among the several scarcities which have just been mentioned, inadequacy in the supply of saving is certainly the most familiar. Since an aim of most developing countries is to raise the level of investment as a means of accelerating economic growth, an increase in the supply of real resources available for investment constitutes a key objective of development policies. If the supply of domestic saving is insufficient to realize the desired level of investment, then either an inflow of foreign capital has to be secured or, if this proves impossible, the level of investment and the over-all rate of growth have to be scaled down. The performance of domestic saving thus constitutes a principal consideration in appraising the development effort and in evaluating the appropriate contribution of foreign aid.

It is a commonplace that the problem of raising the level of domestic saving in developing countries cannot be solved by depressing the currently low levels of consumption but has to be tackled by limiting the proportion of the annual increment in total output that is absorbed in additional consumption. The task, in other words, is to raise the marginal rate of domestic saving above the average rate. With any given rate of growth in total income

and output, the higher the marginal rate of saving the more quickly will the average level of saving be raised. Thus, the performance of domestic saving is most appropriately assessed by reference to the marginal rate of saving that can be achieved.

A factor of underlying importance in limiting the marginal rate of saving which can be achieved in developing countries is the high rate of population growth. With population increasing in most countries at an annual rate of 2 to 3 per cent *per annum*, the primary task of maintaining current levels of *per capita* consumption is in itself considerable. But further, it is rarely feasible to assume that economic development can take place without any growth at all in *per capita* consumption levels, except perhaps over short periods. Even though the community may be willing to forgo substantial improvements in current consumption levels for the sake of larger future improvements, some growth in *per capita* consumption is generally desirable, not only for social and political reasons but also as an economic stimulus to work and effort. The peasant, for example, can hardly be induced to employ better farming techniques and to put more effort into land improvement if he is not to enjoy any direct benefit from the resultant gain in his output. Similarly, the gradual shift of the working population into more skilled occupations, particularly in urban areas, is almost bound to be associated with a rising average level of real wages.

For related reasons, an upward trend in public consumption must also be envisaged as a concomitant of economic development. It is not merely that governmental services generally have to be enlarged to keep pace with the growth of population. Much more important is the fact that the expansion of public services such as education, health, transport or agricultural and industrial services, is itself a condition of economic development; these services are not less important than fixed capital formation in contributing towards the raising of output. In this context, it is pertinent to recall that in countries which have already achieved relatively high levels of income, economic growth has invariably been accompanied by an increase in the proportion of gross national product allocated to public consumption. Of course, by no means all public consumption necessarily contributes to economic development; and an important step in policy formulation is to decide whether or not it would be advantageous to moderate the rate of growth in public consumption and thus release more resources for investment. Still, some growth in public consumption generally proves to be essential and, at least in the long run, it is likely to advance at a rate somewhat above that of gross national product. Thus, the trend in public consumption tends to reinforce the upward push on total consumption exerted by the private sector.

The conclusion to be drawn from these comments is that, provided the rate of increase in total output renders it possible, there are powerful reasons in favour of a minimum rate of growth in total consumption somewhat in excess of the rate of population growth. By how much this minimum rate should exceed the rate of growth in population is not a question that can be answered on *a priori* grounds; but it is worth noting that—as described more fully in a later chapter—the annual rate of growth in *per capita* total consumption called for in the current plans of most developing countries equals or exceeds 2 per cent *per annum*. With rates of population growth running between 2 and 3 per cent *per annum*, the planned annual rate of increase in total consumption has thus been set at 4 to 5 per cent. This amply illustrates how the requirements of increasing consumption may severely restrict the marginal rate of domestic saving. If 2 per cent is taken as the acceptable minimum rate of growth in *per capita* consumption and the rate of increase in population equals 2 per cent, then a marginal rate of domestic saving of 20 per cent can only be realized if the annual rate of growth in total output reaches 5 per cent. If total output were to rise more slowly or population growth were to be more rapid, the marginal rate of saving would necessarily be lower.

The rates of growth in total output and in population are clearly of fundamental importance in circumscribing the extent to which an increase can be achieved in the proportion of domestic income that is saved. If the marginal rate of domestic saving is to be higher than the average rate, the growth in total output certainly has to exceed that rate of increase in total consumption which is deemed to constitute a desirable minimum. By itself, however, this is by no means sufficient to ensure that an increase in the rate of domestic saving will actually take place. Unless the processes and mechanisms through which saving occurs are adjusted to this end, rising income and output may be associated with a proportionate or even more than proportionate increase in consumption. It is therefore a principal task of governmental policy to seek to establish new patterns of saving behaviour. Apart from their direct responsibility for the level of public saving, governments can do much to create conditions conducive to greater private saving.

Some of the measures which can be taken are of a general character which may not be specifically intended to impinge on saving. It is not to be forgotten that in developing countries many of the decisions to save are taken at the same time and by the same people as are the decisions to invest. Measures to encourage saving are therefore, in some part, synonymous with measures to stimulate investment. This is particularly true of the rural areas where much of the investment by peasants or small

farmers is self-financed or, in any case, takes the form of investment in kind. Thus, very general measures, such as the redistribution of land ownership or the improvement of conditions of land tenure, which strengthen the incentive of the peasant to invest may simultaneously enlarge private saving. But the same also holds, in some measure, for saving in the corporate sector. Conditions which stimulate corporate investment tend to encourage corporate saving. Many countries have, in fact, sought to strengthen the growth of both corporate investment and saving through the offer of various tax concessions on new investments.

But there are also many measures of a more direct nature which can foster private saving. The institutions and instruments for saving prevalent in economically advanced countries are often largely lacking in developing countries; the establishment of savings banks, the creation of insurance funds, mortgage facilities and pension funds or the issue of government bonds are only some of the measures which can be taken to facilitate household saving and encourage the formation of new saving habits. For the mass of the population in most developing countries, household incomes are too low to be much affected by such measures. The distribution of income, however, is generally wide and greater saving on the part of the middle and upper-income groups could be undertaken. Highly progressive rates of income-tax and taxes on luxury consumer goods are means of transforming some part of these incomes into larger public saving; but they are subject to the possible disadvantage that they may reduce private saving out of disposable income. Some limited experiments have recently been made with a tax on expenditure as a means of overcoming this weakness.

But it would be unrealistic to expect that most of the positive measures which can be taken by governments would appreciably alter the behaviour of household saving, at least over the relatively short span of years normally covered by a medium-term plan. While these measures may have a considerable long-term impact on the behaviour of household saving, the fact remains that the primary influences shaping the course of household saving, are such structural forces as the level of household income, the distribution of income and its rate of growth. During the past decade, for example, the share of household saving in gross domestic product actually declined in most of the developing countries for which data on saving are available. Governmental policies of income redistribution by means of transfer payments, price controls or subsidies on staple consumer goods may have contributed to this decline in some countries, but a more general reason was the increase in the share of wage income in total household income; this was associated with an increase in the number of wage earners—a structural

change which is an inevitable concomitant of economic growth. In addition, the decline in the share of household saving sometimes reflected the lower income and saving of unincorporated enterprises that ensued from unfavourable trends in the export sector.² It is no doubt possible that the tendency for household saving to decline relatively to gross domestic product as a result of increases in the wage earning labour force may be offset by other factors, and no firm conclusion can therefore be drawn about the likely trend in household saving. But the data do indicate that household saving has not been a dynamic source of domestic saving.

With regard to the other component of private saving, namely, corporate saving, the case is different. Provided that the economic outlook is conducive to new investment and that the physical resources such as imported capital equipment are available for realizing new investment, saving out of corporate income tends to be high. The proportion of corporate income that is saved, in fact, is frequently of the order of 30 to 70 per cent.³ Consequently, if the size of the corporate sector is relatively large and if the proportion of national income accruing to this sector is increasing, the prospects for achievement of a relatively high marginal rate of domestic saving are decidedly improved. This means that a relatively high marginal rate of domestic saving would be somewhat easier of attainment in the more industrialized countries or in countries where corporate organizations bulk large in the export sector.⁴ This is an important point to bear in mind in assessing and comparing the saving performance of individual countries.

The role of corporate saving need obviously not be confined to the private sector. In some countries, marketing boards in the export sector have performed

² For a more detailed analysis, see United Nations, *World Economic Survey, 1960* (Sales No.: 61.II.C.1), chapter 2.

³ This refers to saving out of net income before payment of taxes.

⁴ Data on corporate saving are available only for a very few developing countries, but such information as exists does bear out the importance of the corporate sector. In three of the four countries shown below, for example, the contribution of corporate saving to the growth of total domestic saving between 1953-1954 and 1959-1960 far exceeded that which might have been expected from its initial level:

	<i>Share of corporate saving in total domestic saving, 1953-1954</i>	<i>Share in increase in total domestic saving, 1953-1954 to 1959-1960</i>
Philippines	30	33
Jamaica	16	47
China (Taiwan) ..	6	27
Colombia	6	60

Source: Bureau of General Economic Research and Policies of the United Nations Secretariat, based on Statistical Office of the United Nations, *Yearbook of National Accounts Statistics*.

a function similar to that of private corporations in raising the level of saving. The same is true of other countries where public corporations have been established in the industrial sector. It is a fact, however, that the pricing policies of governments with regard to the goods and services sold by public corporations have sometimes tended to restrict the saving of these bodies. The pricing of goods and services below their market value has usually been defended as a device designed to stimulate private investment and output or as a means of protecting the consumption standards of low-income groups. While such policies may occasionally be imperative, they have to be weighed against the possible loss to public saving that ensues from their pursuit.

The efforts of governments to raise the level of total domestic saving can obviously be most effectively expressed through the impact of their policies on public saving. It is inevitable, therefore, that the fiscal and budgetary policies of governments should constitute the central consideration in any assessment of the adequacy of the saving performance of individual countries. Mention has already been made of the reasons why—at least in the long run—some growth in public recurrent expenditure in relation to gross domestic product is generally to be expected as a feature of the process of economic development. This means that, even if only to prevent a fall in public saving, public revenue must also generally increase somewhat more rapidly than the growth in gross domestic product; thus, in order to realize a continuous expansion in public saving, the growth in public revenue must be appreciably greater. Experience of the past decade, however, indicates that, in most developing countries, public revenue barely kept pace with, or fell short of, the expansion in expenditure; and the contribution of public saving to the growth in total domestic saving was commonly negligible and sometimes negative.⁵

There are several familiar reasons for the relative inelasticity of tax revenue in developing countries. A large proportion of tax revenue has generally been derived from import and export duties; and the trend in receipts in these taxes has frequently been affected adversely by the sluggishness in exports, by shifts in the composition of imports to commodities which attract lower duties and by the fact that, since many duties are specific, revenue has not risen in line with price increases. The lack of progressivity in personal income-taxes has similarly meant that rising incomes have not necessarily yielded a more than proportionate increase in revenue from these taxes; even where income-taxes are highly progressive, this has apparently not always assured a more than proportionate advance in revenue because of the combination of a high tax base and

⁵ See *World Economic Survey, 1960*, chapter 2.

changes in income distribution.⁶ Inefficiency in tax collection leading to widespread tax evasion has also contributed to poor yields from progressive income-taxes. In a number of countries the growth in yields from corporate taxes, while certainly more buoyant than revenue from personal income-taxes, has been restrained by the provision of tax relief—in various forms—to stimulate corporate investment. Finally, revenue from land taxes has often failed to increase in line with the growth of agricultural incomes and output; land assessments have frequently not been revised for many years and have failed to reflect the increases in capital values resulting from land improvements.

Among the developing countries, there has generally been considerable room for improvement of fiscal systems in order to raise the elasticity of tax revenues. Income-taxes, for example, could frequently be made more progressive and the tax base could be enlarged; tax evasion could be reduced through more efficient tax collection; or land assessments could be revised to take account of increases in values. In countries where extensive use has been made of consumption taxes, these have proved to be particularly effective in raising the level of total revenue, and in many other countries there remains considerable scope for such taxes; these need not make the tax structure more regressive if taxes on semi-luxury and luxury goods are relatively high and if the direct taxes paid by the higher-income groups are sufficiently progressive. Thus, in general, it seems true that the level of public saving could be raised through appropriate fiscal reforms although the magnitude of the increase is necessarily limited by the need to increase the volume of public recurrent expenditure for economic development.

In conclusion, it may be said that in most developing countries the influence of governmental policies on the trend of total domestic saving has thus far been quite circumscribed. More vigorous action could frequently be taken to influence both household and corporate saving, partly through institutional and other measures to encourage saving but also through the exercise of restraint in the use of measures which depress such saving. There is also much scope for positive action to accelerate the growth in total revenue and to restrain the growth in current expenditure. It has to be recognized, however, that in the conditions of most private enterprise and mixed economies, there are restrictions on the possible influence of governmental policies. Of underlying im-

portance in limiting the marginal rate of domestic saving is the rate of growth in total income and output on the one hand and the rate of growth in population on the other. Moreover, the growth of saving in individual developing countries is considerably affected by the particular structural and institutional characteristics of their economies, most notably, the relative size of the corporate sector.

The considerations discussed in this section suggest that while, in conditions of adequate growth in income and output, a higher marginal rate of domestic saving is generally attainable in developing countries, there may frequently be a fairly modest upper limit to this rate in conditions of stable prices. In the experience of developing countries during the past decade, comparatively few appear to have achieved marginal rates of domestic saving in the range of 20 to 25 per cent; and, as will be seen later, among most of the countries which did achieve such rates, a combination of special circumstances—in the form of high rates of growth of exports and dominance of the export sector by large corporate enterprises—usually prevailed. It must, after all, be borne in mind that the initial level of domestic saving in many developing countries has been very low; if the level of domestic saving has been in the region of only 10 per cent of gross domestic product in the recent past, then the realization of a marginal rate of domestic saving of about 20 per cent in the immediate future—say, over the period of a five-year plan—implies an extremely sharp change in the saving behaviour of the economy. In special circumstances—where, for example, the size of the corporate sector is relatively large and a substantial proportion of the increase in income accrues to this sector—this may prove possible. But, in general, radical changes which would have substantial impact on the average level of saving within a relatively short period do not appear feasible. Thus, in countries where the past level of domestic saving has not permitted a level of investment sufficient to ensure an adequate rate of growth in output, the realization of the latter aim has been dependent on an inflow of foreign capital.

THE SUPPLY OF FOREIGN EXCHANGE

While, for many developing countries, the level of investment has been limited by the available supply of real resources, this does not necessarily mean that the key consideration has been the aggregate supply of saving. Shortages in supplies of specific real resources may often assume greater importance than the aggregate supply of saving in hindering the growth of investment. The scarcity of trained manpower which is discussed later constitutes one such specific shortage. In the present section, at-

⁶ In India, for example, although taxes are highly progressive at the upper-income levels, the elasticity of personal income-taxes in the period between 1951/52 and 1957/58 was found to be only about 0.6. This was because the bulk of the growing personal incomes was not subject to tax at all or attracted taxes only at very low rates. See G. S. Sahota, *Indian Tax Structure and Economic Development* (New York, Asia Publishing House, 1961).

tention is turned to the role of shortages in supplies of key imported commodities.

The structural rigidities or imbalances which give rise to persistent scarcities in supplies of key commodities or services may occur at several points in the economy of a developing country. Among the most widely experienced of these scarcities is that arising from the inflexibility in domestic supplies of equipment and materials required for investment; and it is primarily, though not exclusively, this scarcity which accounts for the central role assigned to foreign exchange supplies in the economic growth of developing countries. If a developing country is unable to overcome its lack of a domestic capital goods industry through increased imports of capital goods, then an increase in the proportion of domestic income that is saved may fail to permit the intended increase in the volume of investment. The higher level of investment could be attained only if the foreign exchange scarcity were relieved. In such circumstances, the primary limitation on the level of investment would not be the supply of saving but the supply of foreign exchange. This distinction has important implications for policy both at the national level and with regard to foreign aid. Depending on whether the level of investment is hindered by domestic saving or by structural rigidities, policy prescriptions would be quite different.

Judged by their balance of payments positions, it might appear that a situation of foreign exchange scarcity has been general among developing countries. It is a familiar fact that most developing countries have experienced a deterioration in their balance of payments positions during the post-war years. The tendency for imports to rise more strongly than export earnings has been common. In a majority of developing countries, for example, the proportion of imports of goods and services financed by exports of goods and services has been appreciably lower in recent years than it was in the early nineteen fifties. This trend has been reflected in the drawing down of foreign exchange reserves and in mounting external indebtedness.

By itself, however, a tendency towards deficit in the current account balance is by no means evidence that foreign exchange scarcity has generally been a dominant hindrance to economic growth. In a number of countries, the increasing deficit in the current account balance has reflected the fact that foreign capital has been drawn upon in order to supplement domestic saving. The inability to raise the level of domestic saving at stable prices has impeded the growth of investment; in order to realize a higher level of investment, encouragement has been given to the inflow of foreign private capital, or the government has sought to augment its own resources

by securing official loans or grants from abroad. Of course, the augmentation of domestic by foreign saving has often not taken place in such an orderly fashion and in conditions of stable prices. Balance of payments deficits have also emerged because of the failure of the authorities to curb excess demand. Development programmes which have been over-ambitious in relation to the willingness or capacity of the economy to save at stable prices have generated rising domestic prices and intensified demand for imports. In some circumstances, the pressure of domestic demand has also led to the absorption of exportable supplies by the domestic market, thus lowering export receipts and aggravating the balance of payments deficit.

If resort is made to foreign capital in order to supplement domestic saving, whether or not this ensues from domestic inflationary pressure, then a balance of payments deficit need not be evidence of foreign exchange scarcity as a separate constraint on the rate of investment. In these circumstances, the dominant constraint on the level of domestic investment is properly identified as the supply of saving rather than the supply of foreign exchange. Foreign exchange only becomes a primary restraint on investment and output if the growth of the latter is restricted by insufficiencies in supplies of specific commodities which, by reason of structural rigidities or natural endowment, cannot be produced in adequately increasing volume at home. The question is whether, if additional supplies of imported materials and equipment become available, a higher level of domestic investment would be possible without the emergence of excess aggregate demand. A situation in which foreign exchange scarcity impedes growth thus implies that the economy is potentially able to generate a greater volume of domestic saving at stable prices if an increase in investment can be realized.

Somewhat better than the over-all balance of payments position as an indicator of this situation is the trend in import capacity derived from exports of goods and services. It is a reasonable presumption that, among countries where the rate of growth in import capacity has been relatively low, the likelihood has been stronger that foreign exchange scarcity has acted as a dominant hindrance to economic growth. A low rate of growth in import capacity will generally have reduced the ability to circumvent structural rigidities in the domestic economy through increases in imports. Of the countries shown in table 1-2, for instance, it would be a fair supposition that the growth of investment and output in those countries which recorded relatively high rates of increase in import capacity—exceeding, say, five per cent *per annum*—during the nineteen fifties was not primarily impeded by foreign exchange scarcity. This

Table 1-2. Annual Rate of Growth in Import Capacity Derived from Exports of Goods and Services, 1953-1954 to 1959-1960^a

(Percentage)

Country	Import capacity
China (Taiwan)	12.1
Malaysia	11.3
Ghana	9.7
Iran	9.4
Sudan	9.0
Venezuela	7.7
Jamaica	7.4
Trinidad and Tobago	7.0
Tanzania	6.6 ^b
Morocco	6.3
Nigeria	3.9
Chile	3.4
Ceylon	2.6
Ecuador	2.6
India	2.4
United Arab Republic	1.6
Tunisia	0.3
Philippines	-0.2
Ethiopia	-0.7
Bolivia	-1.2
Kenya	-1.9 ^b
Pakistan	-4.9

Source: Bureau of General Economic Research and Policies of the United Nations Secretariat, based on Statistical Office of the United Nations, *Yearbook of International Trade Statistics* and *Yearbook of National Accounts Statistics*; International Monetary Fund, *Balance of Payments Yearbook* and *International Financial Statistics* (Washington, D.C.).

^a Derived by using import price index as deflator. For Kenya, Malaysia, Morocco, Nigeria, Pakistan, Tanzania and the United Arab Republic, import capacity derived from merchandise exports only. In some cases, owing to limitations of data, time period differs from that stated.

^b Excluding inter-trade with other East African countries.

inference, at any rate, might appear to be valid at least for those countries in which acute foreign exchange scarcity was not present at the outset of the period. For other countries which entered the period with structural disequilibrium in their balances of payments, the most that can be said is that the problem of foreign exchange scarcity may have diminished over the period. Among the countries shown in table 1-2, this, for example, would apply to China (Taiwan) where a high rate of growth in import capacity during the nineteen fifties was accompanied by heavy, though diminishing, dependence on foreign aid.

However, even if qualified by reference to the initial balance of payments position, the trend in import capacity is obviously no more than a crude and partial indicator of foreign exchange scarcity. Since countries differ in their productive structures and in their current requirements of strategic commodities to sustain growth, the rate at which imports have to be

expanded in order to maintain a given rate of growth may also differ. Given the structural rigidities and the evolving composition of demand prevailing in each country, differences necessarily emerge in the rate at which supplies of key commodities have to be drawn from abroad. But further, it has to be remembered that structural rigidities can be lessened and the composition of domestic demand modified, if appropriate policies are pursued. Thus, any judgement regarding the presence or absence of a situation of persistent foreign exchange scarcity necessarily involves an evaluation of the role of governmental policies in lessening structural rigidities and modifying demand. It is not enough to know that the growth in import capacity has been low in relation to the growth in investment and output; for appropriate policies can relax the constraint imposed on investment and output by foreign exchange scarcity. In other words, it would not be particularly meaningful to identify foreign exchange shortage as the primary limitation on the growth of investment and output if, in fact, the shortage were caused, or aggravated, by inappropriate governmental policies.

Measures to shift the composition of domestic demand away from imported commodities constitute one line of action which can be taken to relieve foreign exchange scarcity. It is quite true, as has been mentioned above, that if a country is suffering from shortages of imported supplies of equipment and essential materials, measures designed solely to increase the volume of domestic saving may prove an inadequate solution. Since the import content of domestic consumption expenditure is lower on the average than that of domestic investment expenditure, efforts to increase the level of domestic saving may not, in themselves, release sufficient foreign exchange to finance the imports required for the equivalent increase in investment. In this event, an increase in the proportion of income allocated to saving and investment would simultaneously intensify pressure on the external balance and weaken demand in the domestic market for output of consumer goods. However, it is also true that, if measures to raise the level of domestic saving are so tailored as to fall with greatest impact upon consumer demand for imports or are accompanied by foreign trade policies designed to cut the demand for such imports, the foreign exchange component of domestic saving can be raised.⁷ Moreover, measures to raise domestic saving and restrain domestic consumption expenditure may, in some circumstances, permit the diver-

⁷ In practice, the latter measures have usually been applied without being closely geared to more general measures to raise the level of domestic saving. The consequence has sometimes been that the pressure of domestic demand on domestic output of consumer goods has been raised. This has often resulted in the unplanned emergence of light consumer goods industries producing semi-luxury goods and substitutes for the products that can no longer be imported.

sion of more goods and services to export markets and thereby improve export performance.

Of greater importance in the long run than the above measures are policies designed to lessen the inflexibility in domestic supplies of scarce commodities. The flexibility in supplies may possibly be enhanced by more active measures both to accelerate the growth in foreign exchange earnings through a more intensive export drive and by measures to raise domestic output of imported key commodities. With regard to exports, this raises the question whether their growth is impeded by external demand conditions or by the exportable supplies currently made available by the economy. For most developing countries, mainly dependent as they are on exports of primary commodities, external demand conditions rather than exportable supplies have been the dominant factor determining the rate of growth in their exports. Still, measures to promote the diversification of production for export and to develop new markets through such measures as trade agreements, better marketing facilities and improved quality control can contribute towards lessening this constraint. In certain instances, moreover, exportable supplies of primary commodities have failed to expand in line with external demand owing to the inadequate growth of domestic production and the absorption of a rising proportion of output by the domestic market. In some of the more industrialized countries which have acquired the capacity to develop an export trade in manufactures, export performance has sometimes also been weakened by the fact that a growing domestic demand has absorbed exportable supplies; as has just been noted, greater restraint on domestic consumption could release supplies for export. Thus, in general, despite the obvious limitations, more effective governmental policies with regard to exports could contribute towards lessening foreign exchange scarcity.

Scarcities in supplies of imported key commodities may also, to some extent, be lessened by appropriate governmental policies to raise domestic production. However, since scarcities in supplies of specific imported commodities reflect the structural rigidities which are characteristic of the economies of developing countries, policies to lessen these scarcities are in effect policies to remove the structural rigidities; accordingly, no substantial short-run increases in domestic output can usually be expected even if policies to this end are vigorously implemented. Nevertheless, it should be expected that governmental policies would be directed towards removing these sources of scarcity as rapidly as possible. Many countries, for instance, rely heavily on imports of food and raw materials to supplement domestic supplies. This situation may coexist with strong efforts to raise the productivity of domestic agriculture; and reliance on imported supplies may be

unavoidable until such time as these efforts bear fruit. Again, it may not be feasible for many developing countries at the present stage of their industrial development to enter into large-scale domestic production of such capital goods as machinery and transport equipment. Dependence on external sources of supply may be inescapable. But in so far as foreign exchange resources can be released through the development of other import-substituting industries, a possible means of lessening the foreign exchange constraint on supplies of capital goods is offered.

Thus, in a situation of foreign exchange scarcity, it would be expected that, wherever feasible, policies both to promote exports and to replace imports would be vigorously pursued. If the growth of investment and output is impeded by foreign exchange scarcity, the effect of such policies in gradually bringing about a reallocation of domestic resources could relieve the constraint imposed by structural rigidities. In other words, over time, an increase in the level of investment, expressed as a proportion of gross domestic product, can be realized if a greater proportion of domestic resources is utilized to provide, directly or indirectly, the supplies necessary for investment. While such a change would necessarily be accompanied by an increase in the proportion of domestic income that is saved, this obviously does not mean that an increase in domestic saving would be sufficient to bring this change about. Other more specific measures would also have to be employed in order to direct investment into the appropriate channels.

The conclusion from this discussion is that a number of elements necessarily enter into any judgement of whether foreign exchange rather than domestic saving constitutes the dominant constraint on the volume of investment. If foreign exchange scarcity arising from structural rigidities were the primary limitation, it would be a necessary but not a sufficient condition that there should be a persistent tendency towards balance of payments disequilibrium. The case is strengthened if this tendency is associated with a relatively low rate of growth in the capacity to import derived from exports of goods and services. But the argument only becomes conclusive if scarcities in supplies of key imported commodities continue to impede the growth of investment and output despite the pursuit of vigorous governmental policies, not only to restrict inessential imports, but also to lessen structural rigidities. In such a situation, an inadequate rate of growth in investment and output can only be overcome if foreign exchange earnings are supplemented by an inflow of foreign capital.

THE SUPPLY OF FOOD

The importance of structural rigidities in impeding the growth of developing countries has not been con-

fined to the constraint which they impose on the supply of capital equipment. In the discussion of domestic saving, it was pointed out that, if the pace of expansion in total output fails to exceed some acceptable minimum rate of growth in total consumption, the prospects for raising the level of saving are remote. The need to satisfy the current requirements of an expanding population constitutes a first claim on output. However, in order to meet consumption requirements it is not enough that the growth in total output should exceed the requisite minimum rate of growth in total consumption. It is also essential that the supplies of specific goods and services should be expanding in the right proportions. In particular, the requisite minimum rate of growth in total consumption cannot be met unless supplies of essential consumer goods, notably food, are growing at the appropriate pace. An adequate rate of growth in food supplies—no less than an adequate rate of growth in supplies of capital equipment—is a condition of the attainment of higher levels of investment, income and saving in developing countries.

The role of the agricultural sector in economic development was a source of much misunderstanding in the earlier post-war years. The development of agriculture and of industry were often posed as alternatives and, since the former was identified with perpetuation of the status of developing countries as primary producing economies, the emphasis was usually placed on industrial growth. In more recent years, it has come to be recognized that these two sectors are not mutually exclusive but mutually interdependent in their development. Still, it remains questionable whether there is yet full appreciation of the crucial role which agriculture plays in limiting the pace of economic growth in the economy as a whole.

This central role does not simply derive from the statistical fact that agriculture generally accounts for a large share of total output and its rate of growth accordingly weighs heavily in the over-all rate of growth. Much more important is the economic fact that the rate of increase in agriculture supplies conditions the rate at which the output of other sectors can be increased. For agricultural products that constitute industrial raw materials, this relation is readily understood. But for food supplies, it is less plainly evident and, perhaps for this reason, not always fully appreciated.

It is always formally true that, if the growth in food supplies restricts the pace at which total consumption can be expanded, a lower rate of growth in total consumption can be reconciled with a given rate of growth in total output through raising the rate of saving. In practice, however, the ability of governments to effect this reconciliation is severely circumscribed. If marketed supplies of food cannot

be increased at a rate somewhat in excess of the rate of growth of the population in the urban areas, the rate of growth in urban demand has somehow to be restrained if rising food prices are not to ensue; and there is generally no solution to this quandary but to restrain the expansion in development expenditure and thereby to limit the growth in urban employment.

This situation has been present in many developing countries, though it has frequently been mistakenly identified as a short-term problem. The typical course of events in the short term has been that an expansion in development expenditure has generated an increase in demand for marketed supplies of food and, if food supplies have not increased in line with demand, food prices have risen and real wages in the urban areas have fallen. To avoid aggravation of the situation, either the growth in urban employment has had to be restrained through the restriction of development expenditure or food supplies have had to be augmented through imports. In the former case, progress in implementation of the development programme has been directly impaired. In the latter case, unless there has been no foreign exchange shortage or it has been possible to finance food imports through foreign aid, the need to utilize foreign exchange for imports of food has restricted the ability to import capital equipment and essential materials and has thus indirectly impeded the investment programme.

Such a series of events has manifested itself repeatedly in many developing countries, reflecting a persistent tendency for agricultural output to fail to expand at an adequate rate. This is evident enough from the data presented later in this report. In the recent past, the rate of growth in total agricultural output or in food production has equalled or exceeded 4 per cent *per annum* only in very few countries. In fact, in most countries, domestic food production has either failed to keep pace with, or has only barely exceeded, the growth in population. Simply in order to maintain *per capita* consumption levels, or to allow some slight improvement, the volume of imported food has generally had to be increased.

Since population is increasing in developing countries and since there is also an urgent need to raise the very low nutritional levels, the social importance of enlarging food supplies is clearly very great. What has been stressed here, however, is that the rate of expansion in agricultural output and, in particular, of food output is also an underlying determinant of the tempo of over-all economic growth. In the circumstances of most developing countries, it is hardly conceivable that an adequate rate of growth in total output can be realized for a sustained period unless agricultural output is increasing at a somewhat

greater rate than the growth in population; and since population is generally increasing at a rate of 2 to 3 per cent *per annum*, this would mean a rate of increase in agricultural output in the order of 4 per cent. Without sufficient growth in supplies of agricultural materials for industry and in food supplies for urban populations, the pace of industrial growth and the level of investment activity in general cannot, in practice, be sustained. On the one hand, if agricultural production fails to expand at a sufficient pace, it may constitute one of the structural rigidities that underline foreign exchange scarcity; this may limit the level of investment by restricting the supply of foreign exchange available for imports of investment goods. On the other hand, even if domestic output of investment goods or the availability of project aid would permit the initiation of additional investment, the inflexibility in food supplies may rule out further investment expenditure. Thus, measures to increase agricultural output are an integral part both of policies to relieve foreign exchange scarcity and of policies to raise domestic investment, income and saving.

THE SUPPLY OF HUMAN RESOURCES

For most developing countries, either the aggregate supply of saving or the supply of key commodities has been the dominant restraint on the growth of investment and output. But this has not been true everywhere. In some countries, scarcities in the supply of trained manpower or limitations in administrative capacity of government have restricted the volume of other resources which could be effectively utilized for expanding investment and output.

Almost all countries have, of course, experienced scarcities in supplies of specific skills which have impeded the growth in output of particular branches of economic activity. But in a number of countries, the dearth in supplies of trained manpower has been general. There have been shortages not only of technical manpower at all levels but also of managerial and supervisory staff and of administrative personnel to man governmental services. In such countries, even though additional resources other than trained manpower were available, a larger development programme could not be undertaken without a considerable loss in the efficiency of resource utilization. This is to be contrasted with the more common situation where supplies of trained manpower and the administrative capacity of governments are sufficiently flexible to permit the implementation of larger development programmes without marked deterioration in the average level of efficiency.

The data shown in table 1-3, although they refer only to a few classes of manpower, nevertheless suggest the substantial differences among countries in supplies of trained manpower and in levels of

educational attainment. In general, the situation of African countries compares unfavourably with that of countries in other regions. But there are wide variations among individual countries not only as between regions but also within the same region.

Of course, for economic growth, the relevant consideration is the pace of expansion in supplies of trained manpower and in the administrative capacity of government. It has been suggested, for example, that few countries could consistently sustain an annual increase in the volume of total investment much exceeding 10 per cent because, at a higher rate, acute shortages of trained manpower and organizational difficulties in handling and operating the larger flow of new projects would be encountered. It is hazardous to place a figure on this limit to absorptive capacity but the notion that a limit exists is certainly valid. Particularly in countries where the stock of trained manpower is absolutely small, the pace of expansion in supply is critical to the size of the development programme that can be contemplated. For this reason, the careful study of manpower requirements and the long-term planning of educational and training programmes have been essential.

The planning of supplies of trained manpower is an activity of quite recent origin in developing countries, and numerous countries have so far devoted only limited attention to this feature of economic development. Because of past experience, however, a number of countries have been more actively aware of one aspect of the general problem of human resources, namely, the administrative capacity of government. A review of the administrative capacity of government has not infrequently led to the conclusion that this factor, and not the availability of financial or other resources, is the primary limitation on the size of the development programme which could be undertaken. Sometimes, this has no more than reflected the general scarcity of trained manpower, but often it has also arisen from the outmoded nature of the organizational structure or from malpractices in personnel management. A common symptom of such a situation has been a recurrent tendency for actual disbursements to fall substantially short of the sums annually allocated for development expenditure in the government budget. Among certain countries, a similar situation has sometimes prevailed with regard to foreign aid. The possibility of obtaining more official capital from abroad has existed, but the lack of sufficient qualified staff to prepare and implement projects or programmes suitable for foreign financing has restricted the ability to take full advantage of existing opportunities.

The pace at which the economy can organize an expanding flow of development projects and programmes is what is generally known as its absorptive capacity. If the absorptive capacity of the

Table 1-3. Indicators of the Supply of Trained Manpower, about 1960

Region and country	Supply of high-level manpower per 100,000 of population			Enrolment at secondary level as percentage of population aged 15 to 19 years ^b	Enrolment at universities and equivalent institutes per 100,000 of population ^c
	Teachers, primary and secondary levels	Engineers and scientists	Physicians and dentists ^a		
<i>Africa</i>					
Ethiopia	22	...	1	—	5
Sudan	91	...	2	5	34
Tanzania	115	4	5	2	9
Tunisia	232	...	153	18	64
Zambia	243	...	...	2	...
Nigeria	257	...	2	5	4
Malawi	260	...	5	1	...
Congo (Democratic Republic of)	282	...	...	4 ^d	4
Uganda	294	6	5	6	14
Kenya	316	9	11	4	5
United Arab Republic.....	408	50	46	19	399
Ghana	445	13	6	26	29
Morocco .....	...	...	...	7	40
Senegal .....	...	...	...	4	55
<i>Asia</i>					
Saudi Arabia	83	...	...	2	6
Pakistan	202	...	1	16	167
Iran	246	...	13	14	90
India	302	24	15	22	220
Republic of Korea.....	346	...	28	32	397
China (Taiwan)	523	300	36	37	329
Malaysia	692	...	18	25	475
Burma .....	...	...	10	17	63
Philippines .....	...	...	...	25	976
Syria .....	...	...	...	17	223
<i>Central and South America</i>					
Bolivia	283	...	35	10	...
Colombia	411	...	50	16	296
Peru	444	...	30	16	253
Jamaica	481	...	...	13	42
Brazil	489	...	50	18	132
Venezuela	594	...	65	22	355
Chile .....	...	...	75	34	257
Trinidad and Tobago.....	...	...	...	27	61

Source: United Nations, *Compendium of Social Statistics: 1963* (Sales No.: 63.XVII.3); United Nations Educational, Scientific and Cultural Organization, *Basic Facts and Figures* (Paris, 1961); F. Harbison and C. A. Myers, *Education, Manpower and Economic Growth* (New York, 1963).

^a Data generally refer to early nineteen fifties,

economy restricts the flow of new projects and programmes to a level below that which other resources would permit, then the shortage of trained manpower is clearly the dominant scarcity.⁸ This has obvious

⁸ It should be borne in mind, however, that the absorptive capacity of the economy and the supply of resources other than trained manpower available for developmental purposes

and differ among countries regarding qualifications of persons covered.

^b Duration of school years at secondary level varies.

^c Including higher technical schools, training colleges and theological schools. Definitions vary among countries.

^d Not including vocational education.

implications for policy. While more comprehensive educational and training programmes and measures to strengthen administrative systems are a general

are not entirely independent of one another. The ability of the economy to mobilize additional resources for development programmes also depends, in some measure, on the administrative capacity of the government.

requirement of developing countries, these become matters of the highest priority in countries where trained manpower is the dominant scarcity. In order to meet the acute demand for high-level and middle-level manpower, the fullest possible use has to be made of the existing output of secondary school pupils through measures to facilitate further training both at home and abroad, and every effort has to be made to expand the output of secondary schools as quickly as possible. Clearly, however, such measures can only effect a radical transformation in the manpower situation over an extended period of years, and, in the meantime, domestic supplies of skilled manpower must be augmented by foreign personnel if larger development programmes are to be undertaken.

OTHER SCARCITIES

The above analysis of the key scarcities obviously does not embrace all the shortages which may confront developing countries at one time or another. Structural rigidities may give rise to shortages, not only of capital goods or food but also of other key goods or services. Such shortages, however, can mostly be relieved through imports and are therefore part of the more general problem of foreign exchange scarcity. But there are exceptions, most notably power and transport shortages. The emergence of bottlenecks in power or transport has not infrequently impeded the growth of total output, revealing the need for more careful forward planning of power and transport requirements. These, however, have been less fundamental than the scarcities in supply of key resources discussed above.

International policies and development planning

Action to lessen the main constraints on the acceleration of economic growth is necessarily the primary responsibility of the developing countries themselves. For reasons which have just been analysed, it is none the less apparent that there are many limitations on the effectiveness of unaided efforts. At their present stage of development, these countries cannot hope to achieve high and sustained rates of economic growth unless the commercial and foreign aid policies of the developed countries are also attuned to this objective. The measures which the developing countries have proposed to undertake are reviewed in the analysis of current plans contained in the following chapters. In the remainder of this chapter, attention is turned to some of the main implications of development problems for international policies.

AID REQUIREMENTS AND POLICIES

Virtually all current development plans assume that foreign capital will be forthcoming to supplement domestic resources. International flows of capital played an important role in the development of a number of countries throughout the nineteenth and early twentieth centuries; and while the nature and aims of economic development have changed in many respects, the need for foreign capital to promote growth in developing countries is as much present today as it was in the earlier periods. But whereas in the nineteenth century international lending and investment were undertaken by private capital in response to the opening up of opportunities for high returns, international development financing in the present day predominantly involves the use of public funds. It is therefore a matter of public concern that these funds be used in the most effective way and in

a manner which will reduce the need for external assistance as speedily as possible. These considerations have stimulated the interest of donor countries in problems of development strategy and planning and, in particular, they have focused attention on the need for appropriate criteria to assess developmental requirements and performance. Partly to facilitate such assessments, national and multilateral agencies concerned with international development assistance have encouraged developing countries to elaborate development plans. These have served to provide an over-all view of available resources, to indicate the likely increase in requirements and to clarify the role of domestic policies. On this basis, it has been possible to form a clearer impression of the nature and magnitude of the gaps in domestic resources which might be filled by means of external assistance.

This task of assessing the magnitude and the kinds of aid required by the developing countries is closely bound up with the issues discussed in the preceding sections. Identification of the key scarcities confronting these countries is a first step in this process of assessment. But donor countries and institutions also seek assurance that adequate domestic efforts to lessen these scarcities are being made. Some donor countries, in fact, make the adoption of appropriate "self-help" policies a pre-condition for the granting of assistance.

Evaluation of the adequacy of the policies being pursued by a developing country is both a complex and a delicate matter. Some indication of the various policies that would be appropriate to lessen the different kinds of constraints which may confront countries has been given in the preceding sections. But clearly, both the nature of the obstacles and the

adequacy of the policies are questions on which there may be wide differences in interpretation. In practice, the reviewing bodies in donor countries and institutions have based their economic judgements on a general analysis of the economy, on past policies and performance and on the recommendations contained in plans. Because of the confidential nature of these reviews, however, the economic criteria which have been applied are not generally known. This in itself has been one factor impeding the emergence of a more unified approach to the allocation of aid among the donor countries and institutions; and a more systematic exchange of views on the weight which might be given to different criteria has been one important function of the machinery for consultation among both donor and recipient countries established in recent years.

Kinds of aid

The particular nature of the key scarcities confronting a developing country go far towards determining both the magnitude and the kinds of aid which it requires. If, for example, the low level of domestic saving is identified as the dominant hindrance, the magnitude of aid requirements can be estimated as the difference between the volume of investment needed to realize an adequate rate of growth and the expected level of domestic saving at stable prices. Alternatively, if the capital inflow is viewed as a supplement to foreign exchange receipts, requirements may be estimated on the basis of export projections and assumptions about the imports needed to attain a desired rate of growth. These two kinds of measurement do not merely represent differences in statistical technique, but address themselves to two kinds of shortages in resources. These may be quite different in magnitude, and it is important that capital requirements should be measured on the basis of the larger of the two gaps. If, for instance, the foreign exchange gap is larger than the saving gap but foreign aid requirements were measured in relation to the latter, import requirements could not be fully met and the target for over-all growth might have to be lowered.

Similarly, differences in the nature of the key scarcities largely determine the kinds of aid that are required. In the face of an acute shortage of skilled manpower, for example, considerable emphasis in aid policy has to be placed on technical assistance. However, while large-scale technical assistance may often be necessary, it usually needs to be combined with capital aid to produce the desired results. Concentration of effort on elimination of a shortage of trained manpower may increase a country's ability to raise the level of investment faster than its ability to save. Unless foreign capital becomes available to raise the level of investment, some of the benefits of technical assistance may be lost.

Where domestic saving is insufficient to support an adequate level of investment without the emergence of inflationary pressure, external assistance may be required to cover, not only the foreign exchange component of any additional investment but also part of the domestic costs. If aid is confined to the financing of imports of capital goods, lack of resources to meet domestic expenditure may prevent the investment from taking place. In practice, what is more likely to happen in such cases is that local saving will be diverted from other uses to the project for which aid has been allocated. In that event, total investment will increase only by an amount equivalent to the imported capital goods. The provision of aid as a general supplement to the domestic resources available for investment has, in fact, been a common practice in programmes of assistance to former dependencies, notably in Africa.

In countries where foreign exchange is the dominant scarcity, external assistance serves primarily as a supplementary source of import finance. If assistance is provided for specific investment projects, local costs can usually be financed from the recipients' own resources. However, in cases of severe foreign exchange shortage, it may be necessary to provide aid not only to finance the direct import requirements of projects but also to cover some part of the demand for imported goods which will arise from the increased income generated by additional investment. In general, where a country's administrative machinery is adequate to the task of implementing a development plan, programme assistance or general balance of payment assistance is preferable in view of the wide range of imports for which aid is required and also because it enables the recipient country to plan the use of its total foreign exchange resources more efficiently.

Finally, in countries where the inflexibility in domestic food production contributes to the scarcity of foreign exchange, the provision of aid in the form of food can also make an effective contribution towards relaxing the constraints on growth. If food supplies fail to keep pace with the growth in demand, a country with inadequate foreign exchange resources may be unable to increase investment expenditure because the resultant increase in income would create inflationary pressures. In that event, the receipt of food aid can facilitate an expansion of investment and employment in conditions of domestic price stability.

External assistance in relation to current plans

Actual estimates of the external assistance required to bridge the gap between requirements and domestic resources have invariably been included in the current plans of developing countries. The targets and assumptions on which these estimates have been

based are explored in some detail in the chapters which follow. But it may be noted here that, in almost all the plans reviewed in the present report, the planned annual deficit in the balance of payments on current account has been expected to be substantially larger than it was in the immediate past. In fact, if the planned deficits of the seventeen countries included in table 4-10 are taken together, the total deficit is approximately twice as great as that prevailing in the past. Moreover, this understates the increase in the net inflow of foreign capital which is assumed. While some countries were previously able to finance their deficits partially by drawing down their reserves, few, if any, have expected to be able to reduce their reserves further in order to finance deficits arising during their current plan periods.

The increase in the net inflow of foreign capital implied in current plans would, if realized, represent a substantially greater expansion in the net annual flow of capital to developing countries than has actually occurred in the recent past. Between 1956-1959 and 1960-1962, the net flow from all sources to developing countries increased by only one-fifth. It is true, however, that there has also been a tendency towards the concentration of aid on selected countries in recent years; in fact, during the period just mentioned, the net outflow of capital to the countries included in table 4-10 (excluding Venezuela) increased by 40 per cent. But though this tendency towards concentration may persist, fulfilment of the foreign aid expectations of all these countries remains highly improbable on the basis of recent trends.

Even though very large, the estimated deficits in the balance of payments on current account understate the total requirements of developing countries for external assistance since they do not take account of amortization payments. The amortization of outstanding external debts constitutes a first claim on foreign exchange resources, and the projected current account deficit is only feasible if the inflow of new funds is large enough to cover this deficit and replace current foreign exchange receipts absorbed in debt repayment. The majority of plans have indicated that annual amortization payments would be considerably larger than was the case in the immediate past. In some countries, they have been expected to be as large as, or even larger than, the current account deficit, while in most countries they amount to between one-fifth and two-thirds of the deficit on current account. The gross requirements for foreign capital during the plan period are thus substantially larger than net requirements and, moreover, represent a greater increase over their past level than do net capital requirements.

Not many of the current plans have indicated the expected magnitude of annual investment income

payments, but the available data suggest that these have been expected to be substantially larger than in the years immediately preceding the plan. Apart from the countries where investment income payments arise chiefly from private investment in export industries and where such transfers consequently tend to move in line with export receipts, the rise in investment income payments has been expected to absorb a larger proportion of export receipts than in the past. The implication is that the net inflow of external capital will partially serve to compensate for the transfer of income arising from past borrowing and that the net addition to the real resources available to countries for economic development will be equivalent to only a part of the net capital inflow.

The problem of debt servicing

The increase in interest and amortization payments projected in current development plans is indicative of the marked growth in external indebtedness of the developing countries which has occurred in recent years. So sharp has this increase been that the problem confronting the developing countries in meeting the interest and amortization payments required to service their external debt has become one of the central issues of international development policy.

Some impression of the magnitude of the recent increase can be obtained from estimates made by the International Bank for Reconstruction and Development.⁹ These indicate that the outstanding public and publicly guaranteed debt of thirty-four developing countries increased from \$6 billion in 1955 to \$16.3 billion in 1962.¹⁰ The consequent growth in the debt servicing burden of developing countries has been very considerable. Amortization payments on such outstanding public and publicly guaranteed debt increased more than threefold over the same period while interest payments almost quadrupled.¹¹ By contrast, receipts from merchandise exports of these countries increased by less than 10 per cent. This meant that, by 1962, interest and amortization payments had risen in amount to an

⁹ "Economic Growth and External Debt—A Statistical Presentation", document submitted by the International Bank for Reconstruction and Development to the United Nations Conference on Trade and Development (E/CONF.46/40).

¹⁰ The outstanding debt of all developing countries other than those in south and south-east Europe was estimated at \$25 billion in 1962.

¹¹ The sharper increase in interest payments may seem surprising in view of the general easing of lending terms since the late nineteen fifties. But the easing of interest rates on official loans from some donors was apparently offset by the growing share of guaranteed private credits at high interest rates in the total amount of outstanding debt and by the increased contribution to the total supply of aid-funds of some donor countries whose interest rates are relatively high.

equivalent of 13 per cent of export receipts. These payments, moreover, related only to public and publicly guaranteed debt and did not include service payments on private credits or the transfer of income from private direct investments.

A number of factors have underlain the extraordinary growth in the external indebtedness and debt servicing burden of the developing countries. Of fundamental importance has been the initiation of policies in the developing countries to accelerate economic growth. For some of these countries, an inflow of foreign capital has become essential in order to supplement the low levels of domestic saving and to achieve an adequate rate of domestic investment. For others, the coincidence of efforts to accelerate domestic growth with sluggish trends in world demand for their exports has placed foreign exchange scarcity in the forefront as the dominant impediment to growth. Confronted by structural rigidities which prevent an acceleration in export earnings or the rapid development of domestic substitutes for imported investment and other goods, countries have had to rely on an inflow of foreign capital to finance part of their import requirements. Thus, in general, the implementation of policies for economic development has been partly conditional upon the institution of aid programmes under which capital is provided in response, not to market incentives but—at least in principle—to the requirements of economic growth.

But further, there is little doubt that there was in the past a general tendency to disregard the persistent nature of the sluggish trend in export earnings of most developing countries. Much foreign lending and borrowing to relieve foreign exchange scarcity took place on the assumption that such scarcity was a temporary phenomenon. Many loans were accordingly scheduled for repayment within a relatively short period; their terms were not related to the time required for the investment to pay its way and even less to the time required to effect the structural adjustments which would relieve foreign exchange scarcity.

Of the two components of debt servicing, namely, interest and amortization payments, this has particularly affected recent trends in the latter. To a considerable degree, the recent increase in amortization payments reflects the unfavourable maturity structure of a large proportion of the external borrowing which took place in the latter part of the nineteen fifties. Developing countries made extensive use of export credits offered by manufacturers in developed countries to finance imports of capital goods or other manufactures. Such credits, usually provided under government guarantee, were largely repayable within five years or less. Loans with relatively short maturities were also obtained from for-

ign banks or official lending institutions for the consolidation of commercial arrears or for general balance of payments support. In consequence of such financing transactions, the average life of the outstanding external debt has become relatively short.¹² A further factor contributing to the recent rise in amortization payments has been the expiration of grace periods on official loans obtained in the latter part of the nineteen fifties. Since such loans often allow grace periods of around five years, amortization payments on the growing volume of loans granted after 1956 have increased appreciably since the beginning of the present decade.

It is true that the recorded increase in public and publicly guaranteed external debt tends, in some degree, to overstate the growth in the total debt servicing burden of the developing countries. The increase in public or publicly guaranteed external debt since the mid-nineteen fifties has been accompanied by some curtailment in the flow of private capital to the developing countries for direct investment; and the consequent shift in the composition of capital flows has probably reduced the average rate of return payable on all foreign capital. Even allowing for this qualification, however, it is quite evident that the growth in the debt servicing burden of developing countries has been very considerable.

It has come to be fairly widely recognized that past international aid policies were deficient in their disregard of the problem of debt servicing. In the past, the prevailing approach was to finance imports of equipment for specific development projects on terms which were considered appropriate to the individual projects. The problem that emerged at the national level of servicing the various loans which had been received was not taken into account but was regarded as an issue which was the sole responsibility of the recipient country. In the event of acute debt servicing difficulties, assistance was provided on an *ad hoc* basis in the form of balance of payments loans, consolidation credits or similar financial accommodation. In the recent past, the increased emphasis on programme aid in place of project aid has enabled recipient countries to accommodate debt service payments somewhat more easily in their foreign exchange budgets; this, however, has only provided temporary alleviation to the problem of debt servicing by postponing it to a later date.

Dissatisfaction with the past approach has led, in recent years, to the introduction of some important changes in aid policies, especially among the principal donor countries and institutions. In par-

¹² The International Bank for Reconstruction and Development estimated that, as of 1962, the average life of the external public and publicly guaranteed debt of developing countries was slightly more than eight years. See "Economic Growth and External Debt—A Statistical Presentation", op. cit., page 15.

ticular, there has been a notable shift in policy towards the substitution of soft loans for hard loans. Thus, about one-half of the official bilateral loans currently extended to developing countries carry rates of interest of less than 3 per cent and maturities of twenty years or more, whereas, as recently as 1961, only about one-quarter of all new official loans were made on these relatively lenient terms. In addition, much greater attention has been given to the possibility of varying the combination of grants and loans on different terms in order to adapt the total debt burden more suitably to the circumstances of the recipient country. It should be noted, however, that these changes in aid policies have also been accompanied by a reduction in the flow of cash grants to developing countries, and this has, to some extent, offset the benefits derived from the easing of lending terms.

Underlying these changes in lending policy has been a concern to bring the terms on which loans are extended more closely into line with the prospective debt servicing capacity of the recipient countries. It would have to be admitted, however, that current views on how the debt servicing capacity of a developing country should be assessed are far from having been crystallized. Yet the notion of debt servicing capacity which is actually employed to guide foreign aid policies is influential in decisions about the volume, kinds and terms of the aid to be extended to individual recipient countries.

At least until recently, debt servicing capacity has usually been defined in terms of certain practical, short-term limitations on the ability of a country to make financial transfers abroad for meeting debt obligations. This has been evaluated on the basis of the ratio of debt service payments to foreign exchange receipts from exports of goods and services. Since debt service payments cannot be varied in the light of changes in external receipts, the ratio is an indicator of the degree of flexibility in a country's balance of payments. A high ratio suggests that it might be inadvisable to provide more foreign loans since, in the event of a downturn in exports receipts or of an unforeseen increase in import requirements, the recipient country might encounter debt servicing difficulties. Even from the standpoint of an appraisal of short-term servicing prospects, however, the debt service ratio is subject to major qualifications. It neglects, for example, the magnitude of the foreign exchange reserves or compensatory financing facilities that may be available to offset a decline in export receipts. Nor does it take account of the degree of flexibility that may exist in imports; if imports exceed the basic requirements of the economy, it may be feasible to reduce them in the event of a decline in export receipts. Finally, it ig-

nores the internal transfer problem that must also be overcome to service foreign debt.

But the fundamental objection to this measure is that it does not define debt servicing capacity in the context of economic development. While short-term considerations cannot be dismissed as irrelevant, the debt service ratio does not constitute a measure of debt servicing capacity which is related in any way to the long-term growth objectives of the recipient country. If it is accepted that the definition of debt servicing capacity should be consistent with the aim of realizing adequate rates of growth in the developing countries, then the whole approach to its assessment becomes quite different. Debt servicing, after all, is not solely a financial transaction but entails the transfer of resources from the borrowing to the lending country. But if a net transfer of real resources to a developing country is required for the achievement and maintenance of an adequate rate of growth, the country will be able to service external debt only so long as the net financial inflow exceeds the net inflow of real resources required to sustain the agreed rate of growth.¹³ If it does not, the resources needed for debt servicing can only be obtained through a reduction in import requirements and, hence, in the over-all rate of growth.

Seen in this light, debt service capacity becomes dependent on the long-term trends in the domestic saving performance and foreign trade performance of the developing country. So long as domestic saving falls short of the investment required to sustain the agreed rate of over-all growth or so long as export earnings fall short of import requirements for such growth, a transfer of resources from abroad is necessary. But in these circumstances, the developing country will even be unable to meet the investment income payments component of its debt servicing obligations without an additional inflow of external capital. When the gap is bridged, the country will no longer require external assistance to replace the resources used to meet investment income payments. But fresh borrowing from abroad will still be necessary to cover the amortization of debts accumulated in the past.

The practical implication of this longer view of debt servicing capacity is that developing countries require external assistance not only to bridge the gap between their domestic saving and investment requirements or between export earnings and import requirements, but also to meet their debt service obligations. And this makes a very considerable dif-

¹³ The net inflow of real resources is equivalent to the import balance on goods and services which become available for current consumption and investment. The net financial inflow is equivalent to the current account deficit on goods, services and investment income payments; investment income transfers are financial payments which are not associated with an inflow of real resources at the time they are made.

ference to the total volume of external assistance which they need.

It has been noted earlier that current development plans have been based on the assumption that there would be a very substantial increase in the net inflow of capital. It is true that the planned rates of growth in total output have generally represented a very considerable acceleration over the rates actually prevailing in the past. But even if a more modest acceleration had been assumed, it is still quite certain that this would have implied a substantial increase in the net inflow of capital. Further, it is also without doubt that most developing countries will continue to need a large net inflow of external assistance in the years following the completion of their current plans.

But, as a consequence of the continued need for net borrowing from abroad, the external indebtedness of the developing countries is bound to increase. Moreover, the magnitude of the likely growth in the debt service burden is very considerable. Thus, it has recently been estimated that, if the net annual outflow of official loans from developed to developing countries were maintained at its present level of approximately \$2.5 billion and if these loans continued to be extended on present average terms, then the burden of debt servicing would rise to \$5.2 billion in 1970 and to \$6.8 billion in 1975.¹⁴ It should be recalled that the total gross outflow of long-term funds—both public and private—from developed to developing countries has currently been running at an annual rate of about \$8 billion. Were this rate to remain unchanged, the debt servicing of official loans alone could absorb by far the greater part of the gross outflow by 1975. Far from there being an increase in the net transfer of real resources to developing countries, as assumed in their plans, the net transfer would progressively diminish.

While the problems created by the growth in the debt servicing burden of developing countries have led to the introduction of beneficial changes in the aid policies of some donor countries and institutions, their implications, not only for the terms of aid but also for the volume of the gross outflow of capital likely to be required, are still far from having been fully appreciated. Recent policy decisions in donor countries have actually led, not to an increase but to a levelling off in the total amount of official loan commitments to developing countries. Were this trend to remain unchanged, the prospects for the financing of the investment and import requirements of developing countries would not appear to be encouraging.

¹⁴ *A Study of Loan Terms, Debt Burden and Development*, Agency for International Development, United States Department of State (Washington, D.C., April 1965).

TRADE POLICIES

Trade policies of developed countries

Adequate foreign aid policies are only one aspect of the favourable external conditions required by developing countries for the achievement of adequate domestic growth. For most developing countries, trends in foreign trade are of fundamental importance in determining the growth in their capacity to import as well as, quite frequently, the growth in domestic income and saving. Thus, the commercial policies pursued by developed countries with regard to imports from developing countries are not less important than their foreign aid policies. In principle, these should reinforce one another, but in practice, liberal aid policies have frequently been pursued concurrently with restrictive commercial policies. Yet the extension of aid and the relaxation of restrictions on access to domestic markets are, to some extent, alternative measures. This is especially true for those developing countries where foreign exchange scarcity has been a dominant hindrance to domestic economic growth. In these countries, an increase in export earnings can contribute as much to the lessening of this constraint on growth as an equivalent increase in the net inflow of aid.

As is brought out in a later chapter, many of the current plans of developing countries have aimed to achieve an acceleration in the rate of growth of their exports. It has had to be recognized, however, that the scope for accelerating the growth of traditional primary product exports is limited by the relatively slow growth of world demand for many of these commodities as well as by the various restraints imposed on imports by developed countries. The developing countries have therefore looked to diversification as a means of expanding their exports. But diversification involves finding outlets for exports of processed products and manufactures in the face of commercial policies in developed countries which tend to inhibit the growth of such trade. Although diversification may be expected to contribute to an acceleration of exports even within the limit of existing import policies, major advances cannot be achieved without a liberalization of these policies.

There are relatively few primary commodities in which trade is not affected by some form of import restraint such as tariff restrictions, quantitative controls or fiscal charges.¹⁵ While the severity of existing limitations varies according to commodities and importing countries, their total effect on world trade in primary products is considerable. Some of these restraints are a corollary of domestic agricultural policies in the developed countries while others aim

¹⁵ For a full description of these obstacles and an appraisal of their impact, see *World Economic Survey, 1963, I. Trade and Development: Trends, Needs and Policies* (Sales No.: 64.II.C.1), chapter 5.

to protect domestic producers of minerals and fuels. Certain tariffs and fiscal charges, on the other hand, are imposed for revenue purposes. The nature of these restraints and measures for their progressive reduction have long been the subject of study and discussion in international bodies and they were among the major items on the agenda of the United Nations Conference on Trade and Development.

Many developing countries look to the establishment of processing facilities for their export commodities as a means for increasing the value of their export. But the scope for development along these lines is at present limited by the import policies of many developed countries. For primary products which are normally traded in crude form, processing facilities have been built up in the importing countries, and in order to ensure the full utilization of such facilities, tariffs and import quotas tend to discriminate in favour of imports of crude materials. The extent to which exports of processed products can be expanded therefore depends on the willingness of the importing countries to modify their import policy, as well as on the ability of the exporters to maintain processing costs at a competitive level. This is a field where international co-operation can yield significant gains for the developing countries—in the short run through changes in import policy and in the long run through concerted action aimed at the redistribution of processing facilities in favour of the exporting countries. Such a redistribution is already taking place in the special case of foreign owned mining and petroleum enterprises, some of which have been enlarging processing facilities close to the source of the raw material rather than in the importing country. But, at present, even these are sometimes affected by measures to protect competing producers in the importing countries.

While the domestic processing of export products represents a step towards reducing the heavy dependence of developing countries on primary production for their foreign exchange earnings, trade in processed products is subject to the same long-term world market influences that affect exports of crude materials. Since world trade in manufactures is both more buoyant and more stable than trade in primary commodities, the developing countries are beginning to look to exports of manufactures in order to ensure a more rapid growth of their export receipts. But even apart from its beneficial effect on foreign exchange receipts, the development of an export trade in manufactures is frequently also essential to efficient industrialization. At the present time, manufactures from developing countries are faced with various restrictions in the markets of developed countries. Products such as textiles, which developing countries are able to produce at competitive prices, are limited by restrictions applied by many importing countries for the purpose of protecting domestic

producers against "unfair competition". Other manufacturers may not be competitive in the markets of developed countries under existing tariffs because of relatively high production costs. Therefore, if manufacturers are to make a growing contribution to the export receipts of developing countries, the restrictions imposed by importing countries need to be reduced or eliminated; to give added impetus, it has also been suggested that developed countries should accord preferential treatment to manufactures from developing countries.¹⁶

Co-ordination of policies among developing countries

International measures to facilitate the realization of development targets, however, are certainly not confined to action by the developed countries alone. Closer co-operation among the developing countries themselves can also contribute towards this end. One aspect of such co-operation lies in the better co-ordination of targets for exports to developed countries, the other in measures to expand trade with each other.

In setting targets for their major exports of primary products, most developing countries have been guided by their expectations about the trends in world demand for these products; and, as will be seen in a later chapter, these expectations generally appear to have been based on the assumption that future growth in demand would broadly conform to trends in the recent past. Having set their targets for their principal primary commodity exports in line with these expectations, they have implicitly assumed that they would maintain their accustomed share of world markets. At the same time, however, countries have generally planned for some diversification of their exports in the field of primary commodities as well as through the development of an export trade in manufactures or semi-manufactures. And where countries have set targets for minor exports or where their principal exports have, in any case, been of minor importance in supplying world markets, there has been a tendency to set targets more by reference to domestic supply conditions than in conformity with expected trends in world demand. Primarily for this reason, the planned increases in exports of primary products could, if realized, result in some intensification of competition in primary commodity markets among the developing countries, particularly between the major and minor exporters of the same products. Shifts in sources of supply of primary commodities, as in other products, are bound to occur, and countries cannot be discouraged from developing new lines of production if domestic supply conditions appear propitious. But

¹⁶ For a full description of the obstacles to and measures for the expansion of manufactured exports, see *World Economic Survey, 1963, I. Trade and Development: Trends, Needs and Policies*, chapter 7.

it would be to the common advantage if the developing countries had greater knowledge of each other's intentions in this regard. For lack of information, most plans, in setting their export targets, have had to neglect the likely increases in supplies in other producing countries on their own export prospects.

To some extent, such information is being gathered by international commodity study groups and in connexion with existing commodity agreements, but the range of commodities covered is limited. On the other hand, bodies engaged in the review of development plans for the purpose of evaluating aid requirements have access to the relevant information on trade only to the extent that producing countries submit their plans for review; and consequently the information relating to individual commodities which may be gleaned from these reviews is not comprehensive. More intensive efforts by the developing countries to exchange information about their programmes for exports could be to the common advantage since it could help to lessen the danger that mutually conflicting targets might be established.

The other, and more important, field for co-operation among developing countries lies in exploration of the possibilities for the expansion of trade with each other. In the recent past, regional trade co-operation has, in fact, aroused much interest, not simply as a means of expanding exports, but as an instrument of general development strategy. This interest has stemmed, in large part, from recognition of the fact that the size of many developing countries—measured in terms of their population and natural resource endowment—constitutes an obstacle to the efficient growth of a diversified industry. For some countries, the domestic economy is too small to support the large industrial complexes required for future industrial growth; for others, large industries, while able to operate on a scale which is technically efficient, enjoy a monopolistic position which discourages economic efficiency. Enlargement of the market through expansion of trade in manufactures with other countries has thus been seen as a means of fostering efficient industrial growth. Faced with the difficulty of finding export outlets for their manufactures within the existing international trading structure, developing countries have begun to look to regional trading arrangements as a possible solution. The basic aim of these arrangements is the creation of protected markets to permit the acceleration of industrial growth through diversification or the realization of gains obtainable from specialization. It should be added that interest in the establishment of trading groups has also been stimulated by the fact that, under the rules of the General Agreement on Tariffs and Trade, developing countries are unable to discriminate in favour of

each other's products except within the framework of such formal groupings.

Arrangements of an extensive nature for regional integration have so far been relatively few in number. One arrangement of long standing is the East African Customs and Currency Union between Kenya, Uganda and the United Republic of Tanzania. This is the oldest among the many groupings now in existence in Africa. These countries have a common external tariff and customs administration and maintain a number of common services, notably railways, telecommunications, higher education and research. Industrial development has none the less proceeded much faster in Kenya than in the other countries, in spite of the introduction in 1948 of an interterritorial industrial licensing system. This was designed to attract new industries by offering security against uneconomic competition and to ensure that each of the participating countries would obtain at least some new industries. In practice, this system appears to have had little effect in furthering industrial development in the region as a whole.¹⁷ Other groupings in Africa have been of very recent origin. In 1964, for example, agreements were reached to establish the Maghreb Economic Union comprising Algeria, Libya, Morocco and Tunisia, and the Central African Economic and Customs Union comprising members of the Equatorial Customs Union and Cameroon. It may also be noted that, under the auspices of the Economic Commission for Africa, a group of experts has recently been considering the possibility of establishing an African payments union.

One of the most far-reaching of recent initiatives is the agreement between six Central American Republics embodied in the "General Treaty of Central American Economic Integration". This Treaty provides for the elimination of customs duties over a five-year period and the establishment of a common external tariff on a substantial proportion of imports from outside the group. But its most interesting feature is the provision that manufacturing plans requiring access to the entire Central American market in order to operate with reasonable efficiency may be designated "integration industries" and given immediate free access to all the national markets. In order to ensure the equitable distribution of integration industries, no member may acquire a second integration industry until all other countries have one such industry. Plants established outside the integration programme are subject to the usual duties and are to receive free entry only at the end of the transition period. Arrangements for integration industries are under intergovernmental control and the

¹⁷ United Kingdom Colonial Office, East Africa, *Report of the Economic and Fiscal Commission*, February 1961, Cmnd 1279 (London).

promotion and financing of co-ordinated industrial development is undertaken by a regional institution.

Another major initiative taken in this field in recent years was the establishment of the Latin American Free Trade Association. The Treaty of Montevideo, under which the Association was founded, provides for the elimination of tariffs and other restrictions on "substantially all" the mutual trade of its members over a twelve-year period. The Treaty also lays down the very broad outlines of certain other arrangements, but leaves the details for subsequent negotiation. These arrangements relate to the co-ordination of agricultural development and trade policies, the co-ordination of industrial development policies, and the negotiation of "mutual agreements on complementarity by industrial sectors". The firm commitments under the Treaty relate primarily to the freeing of existing trade. Although it makes provision for the elimination of barriers on products which are not currently traded among the participants, there is no compulsion to do so. The Association is thus less specifically oriented towards regional industrial development than is the Central American Customs Union, and apart from its provisions regarding tariff reductions, the Treaty of Montevideo involves few specific commitments other than those relating to negotiation. Member countries have concluded several industrial agreements under which all intra-regional barriers to trade in specific industrial products are to be eliminated and national tariffs and other restrictions on imports from the rest of the world are to be brought to a common level. But the successful implementation of these agreements depends on the willingness of importers of these products within

the region to shift their sources of imports to regional suppliers.¹⁸

Elsewhere, numerous other agreements have been reached for economic co-operation among pairs or groups of countries. These agreements have invariably been much more specific in character than the free trade or customs union arrangements just described. They have usually related to the multi-national development of common natural resources or economic facilities, such as river basin development or the construction of common transportation facilities. In a few cases, they have also applied to the establishment of particular industries. An important means whereby such forms of regional or sub-regional co-operation can be enlarged lies in the establishment of regional development banks; these can serve to mobilize resources, not only for the financing of national but also of multi-national projects. Such banks have been established in Africa and Latin America and, under the auspices of the Economic Commission for Asia and the Far East, a committee of nine Governments has been constituted to consider draft statutes for a similar bank in the Asian region.

These various arrangements have been significant, not only because of the direct benefits which they yield, but also because they provide a foundation for more extensive co-operation. There is no doubt that the scope for such arrangements, even of an *ad hoc* character, is far from having been fully exploited.

¹⁸ It should be noted that proposals for the creation of a Latin American common market were very recently submitted to the Governments of Latin America. A statement of these proposals is contained in document TD/B/11.

Summary

This chapter has reviewed the key scarcities which confront developing countries in the process of their economic growth. These scarcities in the supply of domestic resources available for investment, in the supply of key commodities or in the supply of trained manpower are present, in varying degree, in all developing countries. Identification of the particular scarcities which constitute the dominant hindrance to growth in the current phase of development in which each country finds itself is an essential first step in the formulation of appropriate national policies. It is incumbent upon the governments in developing countries to take measures to lessen these scarcities as rapidly as possible. It has to be recognized, however, that the institutional and structural characteristics of developing countries which underlie these scarcities do not yield readily to rapid change.

A favourable constellation of international policies is a necessary condition of adequate progress in the developing countries towards achievement of the target of the Development Decade. This applies no less to the commercial policies pursued by the developed countries with regard to imports from developing countries than it does to their foreign aid policies. Foreign exchange scarcity is such a widespread source of hindrance to growth that the expansion of both trade and aid are essential. Many of the current plans of developing countries have proposed measures to achieve an acceleration in the growth of their export earnings, usually through export diversification. But, while diversification may be expected to contribute to the expansion of exports even with the limits of the existing import policies pursued by developed countries, major advances

cannot be achieved without a liberalization of these policies.

While the relaxation of commercial restrictions on imports from developing countries could lessen the total volume of aid required, more effective aid policies nevertheless remain essential. In certain respects, aid policies have been substantially improved in recent years. Effective steps have been taken to integrate aid policies more closely with national development programmes, and a valuable pattern of co-operation between developing and donor countries has emerged. This co-operation has, in fact, encouraged developing countries to draw up plans for the acceleration of economic growth despite unfavourable trends in foreign trade.

Nevertheless, the current level of aid in relation to the likely requirements of developing countries is far from encouraging. The past efforts of developing countries to accelerate economic growth have been accompanied by a steady increase in their external indebtedness; in many countries, debt servicing obligations have begun to encroach upon the re-

sources needed to maintain levels of investment and rates of growth. And, despite a recent easing of lending terms, there is every indication that this problem will be greatly magnified in the future.

The growing debt service burden has pointed up the need to reconsider debt servicing capacity in relation to the objective of adequate growth in the developing countries. And this, in fact, is true of foreign aid policies as a whole. Undoubtedly, much progress has been made in recent years towards a better understanding of the process of development and of the role of foreign aid. The appraisal of national efforts and the integration of aid policies with national programmes, however, are endeavours which are still in their infancy; and much more work remains to be done in such fields as the assessment of requirements, the appraisal of performance and the evaluation of debt servicing capacity. The analysis of current plans in developing countries and the review of recent progress in plan implementation which are contained in the following chapters provide some of the background information necessary for this work.

Chapter 2

THE MAIN CONTOURS OF DEVELOPMENT PLANS

In recent years almost all developing countries have undertaken the elaboration of national plans for economic and social development. For a few countries, current plans constitute the second or third of a series. But for most countries, they represent the first endeavour in drawing up plans of a national character. They differ from previous planning exercises in that they do not deal solely with particular sectors of the economy, but consider the task of economic development in the context of the economy as a whole. Indeed, particularly among the newly independent countries, these first plans have frequently served as the vehicle for a general exposition of the policy of the government on all major issues affecting the economic life and social welfare of the country.

It is the purpose of the present and the following three chapters to review the targets and policies contained in the current plans of a number of devel-

oping countries. The progress which has been made in the implementation of these plans is outlined in a later chapter. For the present, attention is confined to the plan documents themselves and no attempt is made to assess the current operational significance of these documents. By the same token, differences among countries in the official status of their plans have been ignored. While the plans of a few countries have been enacted into law and are binding on all executing agencies, they have more generally been approved by the legislative bodies as general statements of governmental intent which would be subsequently translated into specific legislative acts or administrative instructions. Certain of the plans reviewed in this chapter, however, have not been ratified and their official status remains uncertain. In a few countries, moreover, the plans, though adopted, appear to have been virtually abandoned as a consequence of political or economic changes.

Planned rates of growth

The planned rates of growth in total output provide the simplest possible quantitative summary of national plans. The annual rates of increase which have been set as targets in the current plans of thirty-eight developing countries are shown in table 2-1, and it will be seen that the range of variation has been wide. No country has planned for an annual rate of growth of less than about 4 per cent, a rate which numerous developing countries only barely achieved, or even failed to achieve, in the past decade. Only a few countries, moreover, have aimed for annual rates of growth of less than 5 per cent. For the great majority of countries, plans have called for annual rates of 5 per cent or more. Indeed, for as many as one-third of the countries, an annual rate of growth greater than 6 per cent has been envisaged. Of course, since the expected rates of population growth have usually been high, these rates of growth in total output have generally appeared much more modest when translated into *per capita* terms. In more than half of the countries, the planned rates of growth in *per capita* output, in

fact, has lain somewhere below 3.5 per cent *per annum* (see table 2-2).

The rates of growth in total output which most developing countries have proposed as targets for their plan periods would, if realized, mark a very decided improvement over past trends. The transformation would obviously be greatest in those countries where past rates of growth in output were negligible (see table 2-3). It is hardly surprising that such countries have planned for the greatest acceleration in the rate of growth; but it is more remarkable that these also number among the countries which have chosen the highest rates of growth as their targets. By contrast, a few countries have not planned any acceleration over their past rates of growth or have even allowed for some deceleration. But it will be noted that such countries mostly recorded relatively high rates in the past. In most countries only moderate rates of growth were realized during the nineteen fifties, and their plans have generally proposed the achievement of an acceleration in growth of the order of one to 2 per cent *per annum*.

Table 2-1. Planned Annual Rate of Growth in Gross Domestic Product^a
(Percentage)

Approximate planned rate of growth	Country	Plan period
9	Mauritania	1963-1966
8.5	Mali	1961-1965
8	China (Taiwan)	1960-1964
	Congo (Democratic Republic of) ^b	1965-1969
	Senegal	1961-1964
	Venezuela	1963-1966
7.5	Jordan	1962-1967
7	Bolivia	1962-1971
	Congo (Brazzaville)	1964-1968
	Ivory Coast	1960-1970
	Syria	1960/61-1964/65
	United Arab Republic	1960/61-1964/65
6.5	Ecuador	1964-1973
6	Burma	1961/62-1964/65
	Ceylon	1959-1968
	Morocco	1960-1964
	Philippines	1962/63-1966/67
	Republic of Korea	1962-1966
	Tanzania	1964/65-1969/70
	Tunisia	1962-1971
5.5	Cameroon	1960-1980
	Chile	1961-1970
	Colombia	1961-1970
	Ghana	1963/64-1969/70
	India	1961/62-1965/66
	Iran	September 1962-March 1968
	Thailand	1961-1966
5	Cambodia	1960-1964
	Jamaica	1963/64-1967/68
	Kenya	1964/65-1969/70
	Sudan	1961/62-1970/71
	Trinidad and Tobago	1964-1968
4.5	Ethiopia	1962/63-1966/67
	Pakistan	1960/61-1964/65
	Uganda ^c	1961/62-1965/66
4	Malaysia	1961-1965
	Nigeria	1962/63-1967/68
	Upper Volta	1963-1967

Source: Bureau of General Economic Research and Policies of the United Nations Secretariat, based on national development plans. For titles of these plans, see annex I.

^a For Malaysia and Tanzania, data refer to the former Federation of Malaya and Tanganyika, respectively. Throughout this study planned growth rate refers to annual compound rate, calculated for the period between the base year and the final year of the plan and generally from data in prices of the base year. Base year usually refers to the year preceding the first year of the plan or some earlier year. In a few cases, owing to limitations of data, the first year of the plan has been employed as base year. Base years of plans are listed in annex table II-2. In some subsequent tables dealing with individual economic sectors, again because of limitations of data, base years in a few cases differ from those stated. For Morocco and Tanzania, calculations pertain to the period ending in 1965 and 1970, respectively; for all other countries final years of plans are as indicated in the last column above.

Except for the following countries, data refer to gross domestic product at market prices: Cambodia, Ceylon and

Table 2-2. Planned Annual Rate of Growth in Per Capita Gross Domestic Product^a
(Percentage)

Approximate planned rate of growth	Country
8	Mauritania
6.5	Mali
6	Senegal
5.5	Congo (Brazzaville)
5	China (Taiwan)
	Congo (Democratic Republic of) ^b
	Venezuela
4.5	Bolivia
	Syria
	Tunisia
	United Arab Republic
4	Burma
	Morocco
	Tanzania
3.5	Cameroon ^c
3	Cambodia
	Ceylon
	Chile
	Colombia
	Ecuador
	India
	Iran
	Jamaica
	Republic of Korea
2.5	Ethiopia
	Ghana
	Pakistan
	Philippines
	Thailand
2	Kenya
	Trinidad and Tobago
	Sudan
	Uganda ^d
	Upper Volta
1.5	Nigeria ^e
1	Malaysia

Source: See table 2-1.

^a See foot-note ^a to table 2-1.

^b 4 to 6 per cent.

^c 3.5 to 4 per cent.

^d 1 to 2.5 per cent.

^e 1 to 2 per cent.

Note a to table 2-1 (continued)

Jamaica, gross domestic product at factor cost; China (Taiwan), Iran, Malaysia, Pakistan and Republic of Korea, gross national product at market prices; India and Syria, national income; some French-speaking African countries, production intérieure brute.

Colombia's plan indicates two target rates of growth based on different hypotheses; for simplicity all calculations in this study refer to the lower target rate. Malaysia's plan shows certain targets in constant prices as well as in current prices, taking into account the anticipated decline in export price of rubber; the growth rate shown above is derived from data in constant prices, but where appropriate in subsequent discussion current price targets have also been used.

Figures have been rounded to the nearest full or half integer.

^b 7 to 9 per cent.

^c 3.5 to 5 per cent.

Table 2-3. Past and Planned Annual Rates of Growth in Gross Domestic Product^a
(Percentage)

Group and country ^b	Annual rate of growth		Approximate difference
	Past	Planned	
<i>Countries indicating very large planned acceleration over past rate of growth</i>			
Morocco	-0.4	6	6.5
Bolivia	0.9	7	6
Syria	0.8	7	6
Tunisia	1.6	6	4.5
Congo (Democratic Republic of)	3.8	8	4
Chile	2.5	5.5	3
Tanzania	3.2	6	2.5
<i>Countries indicating substantial planned acceleration over past rate of growth</i>			
Ceylon	4.1	6	2
Ecuador	4.3	6.5	2
India	3.6	5.5	2
Pakistan	2.5	4.5	2
Sudan	3.2	5	2
United Arab Republic	5.0	7	2
China (Taiwan)	6.7	8	1.5
Colombia	4.2	5.5	1.5
Kenya	3.5	5	1.5
Burma	5.2	6	1
Cambodia	3.8	5	1
Ethiopia	3.4	4.5	1
Nigeria	2.6	4	1
Philippines	5.2	6	1
Republic of Korea	4.9	6	1
<i>Countries indicating either no significant planned acceleration or some planned decline over past rate of growth</i>			
Malaysia	3.5	4	0.5
Thailand	5.2	5.5	0.5
Venezuela	7.5	8	0.5
Ghana	5.9	5.5	-0.5
Jamaica	8.4	5	-3.5
Trinidad and Tobago	10.4	5	-5.5

Source: Bureau of General Economic Research and Policies of the United Nations Secretariat, based on Statistical Office of the United Nations, *Yearbook of National Accounts Statistics*; United Nations, *Economic Bulletin for Latin America: Statistical Supplement* (Santiago), and national development plans and national statistical sources.

^a For details on planned rates of growth, see foot-note ^a to table 2-1. Past period data refer to the period between 1953-1954 and 1959-1960 or a shorter period where data for years stated are not available; they have been conformed as far as possible to plan data.

^b Countries are listed within each group in descending order of approximate difference between past and planned rates of growth.

In interpreting these planned rates of growth in total output, it is to be borne in mind that they constitute objectives which the developing countries have set themselves, and not predictions of the actual course of events. Over-all targets have rightly re-

flected national aspirations to accelerate economic and social development, though they have necessarily been tempered by an assessment of the real possibilities for improvement. In determining the planned rate of growth in total output, most coun-

tries have, in fact, begun from some general notion of the long-run rate of growth which they consider desirable to attain. Some countries, for example, have stated their long-term objective in terms of an increase in *per capita* income over a given period of years; particular instances are the plans of Burma and the United Republic of Tanzania which call for a doubling of *per capita* income in a period of fifteen to sixteen years. Other countries have expressed their aim in terms of a given rate of growth of *per capita* income; the Latin American countries participating in the Alliance for Progress programme, for instance, have taken an annual rate of growth in *per capita* income of 2.5 per cent as a minimum objective. Still others have expressed their aim in terms of the achievement of self-sustaining growth within a given period; this, for example, was defined in the Nigerian Plan as the realization of a level of domestic savings of 15 per cent or more of gross domestic product by 1975.

Within this framework of general aspirations, the task confronting each developing country has been to formulate a feasible plan which would yield a rate of growth approximating the desired rate as closely as possible. In the first instance, most countries have estimated the attainable rate of growth by making some assessment both of the supply of resources for investment likely to become available over the plan period and of the marginal capital-output ratio likely to prevail over the period. Thus, the construction of a financial plan for investment has usually been one of the first tasks undertaken in plan formulation. Estimates have been made of the supply of financial resources likely to become available to the public sector for developmental purposes; to this, rough estimates of the expected trend in investment and saving in the private sector have been added. Since most countries rely on foreign capital to augment domestic resources, the determination of prospective trends in foreign trade and payments has also constituted an integral part of preliminary plan formulation.

The degree to which these preliminary estimates of the over-all rate of growth have been subject to further refinement and revision has varied considerably among countries. In the main, this has depended upon the amount of detailed planning which has gone into the elaboration of production and investment plans. In the initial, highly aggregative stage of estimation, the assumed marginal capital-output ratio has usually been based on past experience, perhaps roughly modified to allow for expected changes in investment composition or capacity utilization. However, in so far as detailed plans have been drawn up for the various sectors of production, it has been possible to estimate the over-all rate of

growth more accurately by summation of these more specific targets.

Most plans have, in fact, established targets for output of the major sectors of production, but they have differed in the degree to which these sectoral targets have been disaggregated. None of the developing countries reviewed in this chapter has, of course, elaborated targets for all the specific goods and services which are produced, or are likely to be produced, in the domestic economy. Quite apart from the fact that this would be well beyond the capacity of the planning machinery in most countries, planning in such comprehensive detail generally would not serve any useful purpose. Whether the public philosophy favours a private enterprise, mixed or socialist economy, a large part of productive activity in all these countries is subject to private decisions. Consequently, a comprehensive elaboration of specific targets would not be operationally useful, since many of these targets would be beyond the capacity of government to implement. This is not to say that plans have failed to set any specific targets at all for output in the private sector. In numerous plans, targets for the output of certain key commodities produced wholly or partly in the private sector have been indicated. In the agricultural sector, these have included targets for major export crops and for domestic food crops; in the industrial sectors, targets for certain essential consumer or producer goods such as textiles, cement, steel or fertilizers have been indicated. However, the primary purpose of such targets has been to serve as guide-lines to decisions in the private sector. They have not reflected detailed plans for investment and output elaborated in advance; rather, they have been indications of the increases in output which would appear to be feasible on the basis of fairly broad assumptions about the supply of resources likely to become available for investment and about the additional output likely to be produced by the new investment. Consequently, the margin of error in overall plan targets has unavoidably been considerable.

An important qualification in this regard arises from the fact that, while the share of the private sector in total output is generally very large, the public sector is usually expected to account for a substantial part of total investment. Commonly, the planned share of public investment in total investment has ranged from one-third to over one-half. For a large part of the total investment programme, therefore, governments have generally been in a position to elaborate plans for specific projects and to estimate the consequent increases in output likely to ensue from implementation of these projects. This has been particularly true of countries where direct participation of the public sector in the commodity sectors of production has been envisaged in plans.

Where the bulk of public investment has been intended to strengthen the infra-structure of the economy or to enlarge social services, the effect of the investment on output has been less easy to gauge. However, even where direct public investment in commodity production has been assigned an important role, it is by no means always true that detailed plans for such investment have been worked out in advance of the introduction of the over-all plan. In a few countries, particularly those which have engaged in planning for some years and which have accordingly built up an extensive planning organization, considerable efforts have gone into the preparation of major projects prior to plan implementation. But, in general, programmes for public investment over the plan period have only been partially translated into specific projects whose investment requirements and contribution to output are fully known in advance.

For these reasons, even in countries where production and investment plans have been worked out in some detail, a large element of rough estimation has entered into the assessment of the increase in total output likely to result from the expected volume

of investment. However, while the large margin of error inherent in the over-all targets should certainly be borne in mind, this fact does not detract from the value of the plans. It is not the accuracy of the estimated rates of growth but the vigour and appositeness of the policies proposed for their realization that constitute the measure of plans. The rates of growth that actually transpire may deviate appreciably from the targeted rates, not only because of the rough nature of the estimates, but also because of the advent of unpredictable events. The importance of the quantitative targets contained in plans is that they mirror the strategies which, on the basis of reasonable assumptions about the future course of events, have been proposed for the achievement of national economic and social objectives; and it is these strategies which are of central interest. The broad review of targets for investment, saving, output and foreign trade contained in the following paragraphs seeks to bring out some of the main contrasts among plans in the nature of these strategies. The governmental measures which have been envisaged for the implementation of these targets are discussed in subsequent chapters.

Planned changes in investment, consumption and the external balance

The proportion of total output which is to be set aside for increasing the productive capacity of the economy is a key decision of development strategy. For most developing countries, past levels of investment have not been sufficient to permit the realization of adequate rates of growth in total output, and an increase in the level of investment has therefore been seen as a primary condition of accelerated growth. Inadequate levels of investment, it should be noted, have not been a feature of all developing countries. The past levels of investment in some countries, such as Burma, Jamaica, Trinidad and Tobago, and Tunisia, appear to have been relatively high, the share of investment in gross domestic product having reached or exceeded 20 per cent; and in some of these countries, plans have accordingly envisaged no change or even a decline in the proportion of resources allocated to investment. In the great majority of countries, however, a principal objective of plans has been to raise investment to a level substantially above that prevailing in the years immediately preceding the plan. Thus as can be seen from table 2-4, it has generally been envisaged that the share of investment in gross domestic product would be considerably greater in the final year of the plan than in the base year.¹

¹ Planned annual rates of growth in investment are shown in annex table II-1.

The magnitude of the planned change in investment has none the less varied considerably among countries because of the different assumptions made about the growth in total output and about the volume of additional domestic and external resources that might become available for investment. When, for the sake of comparability, the changes over the whole of the plan periods are reduced to average annual changes, it will be seen that in most countries the planned annual increase in the share of investment in gross domestic product has been high.² Only in a few countries has no change or even a decline in this share been proposed. In most countries the increase is within the range of 0.4 to one per cent *per annum*; in some, it is greater than one per cent; and in the exceptional instances of Morocco and Pakistan, the planned increase reaches the very high figure of 2 per cent.

The magnitude of these planned increases in the share of investment can perhaps be more readily

² Since plans differ in the time periods which they cover, the changes planned by countries in the share of each component of gross domestic product are not strictly comparable. Where changes in components expressed as percentages of gross domestic product have been presented, they have accordingly been reduced to annual changes through division of the planned change by the number of plan years. This procedure has been followed throughout this study unless otherwise indicated.

Table 2-4. Planned and Past Shares of Gross Investment
in Gross Domestic Product^a
(Percentage)

Country ^b	Share		Annual increase in share	
	Base year of plan	Final year of plan	Planned	Past
Morocco	10	22	2.0	-1.9
Pakistan	10	20	2.0	0.5
Republic of Korea	14	23	1.5	-
Tanzania	12	24	1.4	-0.4
Malaysia	12	17	1.2	0.4
Senegal	10	15	1.0	...
Tunisia	24	32	0.9	-0.9
Ethiopia	11	15	0.8	...
Philippines	12	18	0.8	0.2
Ceylon	14	21	0.7	0.8
United Arab Republic	15	18	0.7	-0.2
Colombia	19	25	0.6	0.6
Ecuador	15	20	0.6	-
Kenya	14	18	0.6	...
Chile	13	18	0.5	0.3
India	11	14	0.5	0.8
Bolivia	15	20	0.4	...
Venezuela	19	20	0.4	1.4
Ghana	21	23	0.3	0.8
Iran	14	16	0.2	2.7
Jamaica	20	20	-	1.3
Nigeria	15	15	-	0.8
Sudan	10	10	-	0.9
China (Taiwan)	20	19	-0.2	0.7
Trinidad and Tobago	28	24	-0.7	1.5
Burma	22	20	-0.8	-0.3
Jordan .....	...	17 ^c	...	...
Mali .....	...	18 ^c	...	...

Source: See table 2-3.

^a For Ghana, Iran, Jamaica and the Sudan, data refer to share of gross fixed investment in gross domestic product; for India, they refer to the share of net investment in national income. For Iran and Venezuela, plan data are for the plan period as a whole. Planned investment data for a number of countries include some outlay in addition to investment in fixed

assets and stocks. For other details, see footnote ^a to table 2-1 and foot-note ^a to table 2-3.

^b Countries are listed in descending order of planned annual increase in share of gross investment in gross domestic product, except Jordan and Mali for which such information is not available.

^c Plan period as a whole.

appreciated if their cumulative effect over a period of years is considered. Thus, an increase of one per cent *per annum* means that, over the short span of five years, the share of investment in gross domestic product would rise by 5 per cent. Were it possible to achieve such an increase in the proportion of resources allocated to investment, the rate of growth in total output could be very substantially accelerated. In developing countries, the incremental capital-output ratio has generally been within the range of 2 to 3 and this could yield an acceleration in total output approaching or exceeding 2 per cent *per annum*.

The immediate question that arises in regard to these planned increases in the share of investment is how the additional resources necessary for their

realization are to be obtained; and this is considered in the paragraphs which follow. There is, however, another question which can also be raised, though it has often not been accorded much attention in plans; and this is whether the organizational, administrative and technical capacity of the economy will expand sufficiently to prepare, construct and operate the large annual increase in the volume of new projects implied by these increases in investment. The past growth of investment in most countries has been limited primarily by the supply of physical resources that can be made available for this purpose; and plans have generally concentrated on this factor as the key determinant of future increases. But it is pertinent to bear in mind that, at the higher rates of increase in investment which are contemplated in most plans, the administrative and technical

capacity of the economy to implement an expanded flow of new projects must also be enlarged. An important consideration in this respect is the future supply of trained manpower. As is brought out in the next chapter, however, not many plans have closely analysed their future requirements and supplies of trained manpower, and the adequacy of these supplies over the current plan periods is therefore a matter of conjecture. Before considering the means by which the additional resources are to be made available for investment, however, it has seemed worth while to recall that the availability of these resources alone does not necessarily assure the realization of an increased rate of investment.

The additional resources necessary to realize the planned increases in investment may come either from a reduction in the proportion of domestic resources absorbed by consumption or from an increase in the proportion of total resources drawn from abroad; the former is synonymous with an increase in domestic saving and the latter with an increase in the deficit in the balance of payments, both being expressed as percentages of gross domestic product. The changes envisaged in individual plans with regard to the roles of domestic and external resources are discussed in the following paragraphs, and it will be found that, while most plans have called for a reduction in the share of consumption, the planned changes in the role of external resources have been mixed. In considering the more detailed analysis which follows, however, it should be borne in mind that a planned decline in the share of consumption in gross domestic product does not necessarily imply an absolute reduction in total consumption; for, the planned level of gross domestic product—with which consumption is compared—has always been assumed to increase. In fact, as will be seen in a later chapter, all countries have assumed in their plans that the absolute level of total consumption would rise; what has been proposed is that a larger share of the increased output should be set aside for investment. By the same token, a reduction in the share of external resources does not necessarily mean an absolute decline in the net inflow of these resources. Even less does it necessarily imply that an elimination of dependence on external resources by the end of the plan period has been proposed. It is true that some countries have envisaged an absolute reduction in dependence. But very few have actually sought to eliminate their dependence completely.

The changes in the utilization of resources which are proposed in the plans of developing countries can be seen by comparing the actual pattern of expenditure in the base year of each plan with the planned pattern of expenditure in the final year. Again, since plans differ in the time periods which they cover, it has been necessary to reduce these to

average annual changes; and these changes are shown in table 2-5.³

The countries shown in table 2-5 have been classified into three broadly different groups according to the magnitude of the planned change in the share of consumption—or, in other words, of domestic saving—in gross domestic product. In the first group of countries, plans have proposed substantial increases in the share of additional resources to be released from consumption in order to augment investment or to reduce the relative dependence on foreign capital. In the second group, the increases in the share of resources to be released from consumption have also been appreciable, though significantly smaller than in the first group. In the third group, little or no change in the share of consumption has been planned and, in one extreme case, the proportion of resources to be absorbed by consumption has actually been planned to increase.

Within each of these three groups, two subgroups can be distinguished according to whether the relative dependence on foreign capital has been planned to decrease or increase. Thus, within the first group of countries, the plans of Morocco, Pakistan and the United Republic of Tanzania have assumed that the external balance, when seen in relation to gross domestic product, would be more unfavourable at the end of the plan period than it was at the beginning.⁴ In other words, it has been envisaged that the share of investment in total output would be augmented, not only by a reduction in the share of consumption, but also by an increase in relative dependence on external resources. Given the substantial reductions in the share of consumption proposed in these three countries, it is thus not surprising that their planned increases in the share of investment are among the highest of all the countries shown in the table.

Among most of the other countries in the first group, relatively large increases in the share of investment in total output have also been planned. These, however, have not been as great as the planned reductions in the share of consumption, since another aim of the plans has been to reduce the relative dependence on external resources. As has just been mentioned, care has to be exercised in interpreting the meaning of these planned reductions in dependence on external resources. Some of the countries in this group have in fact assumed that their dependence on a net inflow of external resources would continue to be substantial by the end of their

³ The distribution of expenditure in the base year and final year of each plan, from which the annual changes shown in table 2-5 have been computed, are set forth in annex table II-2.

⁴ For Morocco, however, this reflects the exceptional fact that, owing to political changes, there was a substantial capital outflow in the late nineteen fifties.

Table 2-5. Planned Annual Changes in the Pattern of Expenditure^a
(Percentage)

Group and country	Consumption	Gross investment	External balance ^b
<i>Group I. Countries indicating very large planned decline in share of total consumption</i>			
(a) And planned reduction or no change in relative dependence on external resources			
Republic of Korea	-2.5	1.5	0.9
Tunisia	-1.9	0.9	1.0
United Arab Republic	-1.5	0.7	0.8
Bolivia	-1.4	0.4	1.0
Senegal	-1.3	1.0	0.4
Ceylon	-1.1	0.7	0.4
Chile	-0.9	0.5	0.3
China (Taiwan)	-0.9	-0.2	1.0
Ecuador	-0.8	0.6	0.1
(b) And planned increase in relative dependence on external resources			
Morocco	-1.2	2.0	-1.0
Tanzania	-1.0	1.4	-0.4
Pakistan	-0.9	2.0	-1.2
<i>Group II. Countries indicating substantial decline in share of total consumption</i>			
(a) And planned reduction or no change in relative dependence on external resources			
Colombia	-0.6	0.6	—
Iran	-0.6	0.2	0.4
Kenya	-0.6	0.6	—
Burma	-0.5	-0.8	1.4
India	-0.5	0.5	—
Ghana	-0.4	0.3	0.2
(b) And planned increase in relative dependence on external resources			
Ethiopia	-0.5	0.8	-0.3
Philippines	-0.5	0.8	-0.3
<i>Group III. Countries indicating slight or no planned decline in share of total consumption</i>			
(a) And planned reduction or no change in relative dependence on external resources			
Trinidad and Tobago	-0.1	-0.7	0.8
Nigeria	—	—	—
Sudan	—	—	—
(b) And planned increase in relative dependence on external resources			
Venezuela	-0.2	0.4	-0.2
Jamaica	—	—	-0.1
Malaysia	0.8	1.2	-2.0

Source: Annex table II-2.

^a See foot-note *a* to table 2-1 and foot-note *a* to table 2-4.

^b Balance of goods and services excluding

factor income. However, for countries where total output refers to gross national product or national income (see foot-note *a* to table 2-1) data pertain to balance of goods and all services.

plan periods. But the important point is that this dependence has been planned to be relatively smaller than it was at the beginning of the plan periods. In China (Taiwan), the Republic of Korea, Tunisia and Senegal plans have all supposed a continued net inflow of foreign capital by the end of the plan

period; but it has been expected that its relative importance would be substantially reduced. The dependence of these countries on external resources in the years immediately preceding their current plans was exceptionally large, and it has therefore been an objective of their plans to achieve a greater

measure of self-reliance in advancing their economic growth.

Among the other countries in this group, namely, Bolivia, Ceylon, Chile, Ecuador and the United Arab Republic, the planned reductions in relative dependence on external resources actually imply the achievement of equilibrium or of a surplus in their balances of payments on current account by the end of their plan periods. It has been expected that the resources for domestic investment and consumption would be met entirely from domestic output and from imports financed wholly out of current export earnings. Thus, the plans of these countries have sought to achieve self-reliant economic growth within the space of their current plan periods. This, it will be understood, does not mean that current plans have not been made contingent upon a net inflow of foreign capital; all these countries have assumed that such an inflow would take place in the course of their current plans. Moreover, though targets have called for a surplus in current account by the end of the plan period, a gross inflow of foreign capital may still have been assumed as necessary to finance amortization payments. Even so, the targets set in the plans of these countries are clearly exceptional and differentiate them sharply from the plans of most other countries.

In the second group of countries, a mixed pattern of increased and decreased relative dependence on external resources is apparent. In Ethiopia and the Philippines, plans have aimed at achieving relatively large increases in the share of investment in total output, partly through increased relative dependence on external resources. For the Philippines, this has implied a shift from a surplus to a deficit in the external balance and for Ethiopia, an increased deficit. In Colombia, Ghana, India and Kenya, appreciable shifts in resources towards investment have been planned without substantial changes in the relative dependence on external resources. For Ghana and India, this means a continuance of their fairly heavy relative dependence on external resources. For Colombia and Kenya, the external balance has been expected to record a positive balance in the final year of the plan as it did in the base year.⁵ Within this same group of countries Burma constitutes an exceptional case; it has been proposed that an appreciable reduction in the share of consumption would be accompanied by an even larger reduction in the share of investment, the

resources thereby released being applied to the improvement of the external balance.

Among the countries in the third group, only very small or negligible changes in the pattern of expenditure have been planned in Nigeria and the Sudan. In these two countries, the pattern of expenditure planned for the final year of the plan is about the same as that prevailing in the base year; this suggests that no radical changes in policy have been contemplated as regards the utilization of resources. In Trinidad and Tobago where the proportion of resources allocated to investment in the base year of the plan was exceptionally high, the plan has proposed a reduction in the share of investment and an increase in the size of the surplus in the balance of payments on current account. In Venezuela, the plan has called for an appreciable increase in the share of investment, to be made possible partly through a reduction in the share of consumption and partly through an increase in relative dependence on external resources. In this case, however, the increase in relative dependence actually means a reduction in the relative size of the favourable balance on current account. A similar change has been planned in Malaysia, where it has been proposed that a strongly favourable external balance in the base year of the plan should be allowed to go into deficit in the course of the plan; this has been planned to permit not only a large increase in the share of investment, but also a simultaneous rise in the share of consumption.

The plans of developing countries have clearly differed widely both in the magnitude of the planned increases in the proportion of domestic income to be saved and in objectives with regard to the future balance of payments position. A few countries have coupled the objective of a substantial increase in investment with the aim of eliminating dependence on a net inflow of foreign capital by the end of their current plan periods. Most countries have assumed that an inflow of foreign capital would continue to augment the supply of domestic resources for investment. More often than not, however, the relative importance of external resources in supporting the planned increases in investment has been expected to decline as a consequence of intensive efforts to raise the level of domestic saving. Moreover, even where an increase in relative dependence has been contemplated, a substantial increase in domestic saving has nevertheless been generally posed as an objective. The particular targets and policies proposed for realization of these broad changes are reviewed in the sections on foreign trade and payments plans and on domestic saving plans which are contained in later chapters.

⁵ For Colombia, this is based on the hypothesis of constant export prices. On the alternative hypothesis of declining prices, a deficit is projected.

The planned pattern of resource allocation

Besides determination of the proportion of total resources to be made available for investment, a second key decision which has to be taken in the formulation of plans is the allocation of these resources among the various sectors and branches of the economy. This is influenced by the targets set for investment, consumption and the external balance on the one hand, and by the resource endowment and existing structure of the economy on the other. The task is to decide upon the pattern of resource allocation which, in view of the existing economic characteristics of the country, would appear to ensure the greatest progress towards the realization of national aims. This decision is never reached in any mechanical way, but rather constitutes the outcome of the positions taken on a number of major and closely interrelated issues of economic development. It reflects, for example, views about the long-term structural changes in the economy which are required to create the conditions for self-sustaining growth; it reflects opinion on the extent to which the growth of the economy should be integrated with international trade; it reflects the assessment of what constitute the key bottle-necks to growth in the current plan period, and, perhaps most important, it reflects the positions taken by governments regarding the extent to which resource allocation should be determined by the market mechanism or should be subject to central decision.

Since the sectoral targets for private and public investment are based on distinctly different considerations, the planned allocation of total investment is best analysed in terms of these two components. In setting targets for private investment in the various sectors of the economy, countries appear to have been guided primarily by the past performance of private investment within each of these sectors. Initial plans for output of the different sectors of production have constituted the framework within which sectoral targets for private investment have been determined. The task has been to assess the extent to which the past performance of private investment might be expected to improve in response to the requirements for increased output postulated in the plans. An important factor entering into this assessment has been the expected influence of actual or proposed governmental policies designed to stimulate or assist private investment. It has sometimes also been hoped that, as the result of favourable policies, an inflow of foreign private capital would substantially augment domestic private investment. Of course, in some countries, more concrete information about plans for private investment in particular sectors has been available; the investment requirements of especially large projects being initiated by private firms have usually been known to

planning agencies and, where the output of a sector is mainly in the hands of corporate enterprises, consultations with the representatives of these enterprises have enabled planning agencies to make well-informed estimates of the investment possibilities.

It is evident, however, that the targets set for private investment in the different sectors of the economy have been mainly in the nature of estimates of the likely or desired performance of such investment. While governmental policies to promote and redirect private investment can influence the volume of investment undertaken in particular sectors, such investment primarily depends on private decisions. Thus, the differences which exist among countries in the expected distribution of private investment among sectors reflect not so much differences in governmental policies regarding resource allocation, as differences in the expected performance of private investment within sectors. While the underlying assumption has been that the pattern of private investment would be conditioned by the planned changes in the composition of demand, it has also not been possible to assume that the response of private investors to the changes in market demand within particular sectors would be of the appropriate magnitude; for this has depended on the various institutional factors which influence the vigour of private initiative in the economic field.

It is in the public investment programme that differences among plans regarding policies for resource allocation emerge most clearly.⁶ The governmental programme for development expenditure, in fact, constitutes the heart of a development plan. This is partly for the obvious reason that such expenditure is wholly under the control of the government and may therefore be allocated in conformity with the national plan. But it is also because public investment expenditure is less bound by ordinary market considerations; it may therefore be utilized to bring about structural changes in the economy which would not otherwise be realized if reliance were placed exclusively on private investors. It must be borne in mind, however, that the allocation of public development expenditure reflects not only views about the structural changes in the economy requisite for economic growth, but also the philosophy of government with regard to the appropriate spheres of public and private initiative.

⁶ It should be noted that the data on public investment contained in plans generally refer to the planned volume of public funds to be made available for investment and not to planned purchases of assets by the public sector. Thus, the data include credits or grants to the private sector for the purpose of investment and, to this extent, they do not measure the planned increases in publicly owned assets.

It should be noted at the outset that the size of the public investment programme in relation to total investment does not, by itself, imply major differences among countries in policies of resource allocation. While in some countries planned public investment may have been intentionally increased at the expense of private investment—principally through the substitution of public for private ownership of the means of production—the more typical aim has been

to increase public investment in order to augment total investment. Thus, in many developing countries differences in the shares of the public and private sectors in total investment have depended, in large measure, on the relative vigour of private investment activity.

This is brought out quite clearly by the data shown in table 2-6. In countries where the share of gross domestic capital formation in total output has, in

Table 2-6. Share of Gross Investment in Gross Domestic Product in Base Year of Plan and Planned Share of Public Sector in Gross Investment^a
(Percentage)

Country ^b	Share of gross investment in gross domestic product in base year of plan	Planned share of public sector in gross investment								
		Commodity production			Basic facilities					
		Total	Agriculture	Mining	Manufacturing	Total	Power	Transport and communications	Services	
United Arab Republic	15	65	...	...	...	...	...	...	...	...
Pakistan	10	64	57	83	45	29	75	96	67	66
Ceylon	14	62	62	57	...	73	89	100	85	43
India	11	61	55	60	—	52	89	95	86	34
Sudan	10	60	58	75	9	33	71	100	66 ^c	56
Iran	14	55	...	...	81	51	...	...	...	...
Senegal	10	55	30	78	17	10	100	100	100	63
Tanzania	12	53	46	77	42	25	93	62	100	44
Chile	13	52	20	32	3	20	72	76 ^d	70	71
Morocco	10	48	32	40	47	17	94	58	100	63
Ghana	21	47	...	37	25	...	...	100	...	...
Jordan	...	47	45	67	—	—	79	—	91	37
Burma	22	45	...	...	...	...	...	...	...	...
Ecuador	15	43	...	...	...	...	...	...	...	...
Kenya	14	41	...	...	...	...	...	...	...	...
Malaysia	12	41	...	...	...	...	...	...	...	...
Venezuela	19	36	21	60	7	10	79	68	85	34
Republic of Korea	14	35	...	...	23	56	...	...	...	...
China (Taiwan)	20	29	20	20	35	18	40	30 ^e	57	30
Colombia	19	29	11	12	2	1	52	68	47	35
Philippines	12	23	12	30	4	9	40	100	20	11
Jamaica	20	20	...	...	...	...	...	...	...	...
Trinidad and Tobago	28	19	6	51	—	6	62	100	44	19

Source: See table 2-1.

^a Except for the following countries, planned share refers to the plan period as a whole; for Malaysia and in the case of sectoral data for Colombia, it refers to the average of the base year and the final year of the plan; for Trinidad and Tobago, estimates have been obtained by relating the annual average of public investment in the plan period as a whole to the annual average of private investment in the base year and the final year of the plan. For India and Morocco and in the case of sectoral data for Ghana, the data are for net investment; for the Sudan they pertain

to net investment excluding the subsistence sector, and for Iran to development expenditure. For several countries investment data exclude stocks. In general, the distinction between public and private investment is according to the source of funds.

^b Countries are listed in descending order of planned share of public sector in total investment.

^c Including distribution.

^d Electricity, petroleum and coal.

^e Including Shihman Reservoir Project.

the past, been relatively low, the share of public investment in total planned investment tends to be relatively high. In other words, since the past level of private investment has been relatively low, heavy reliance has been placed on investment by the public sector to raise the level of total investment during the plan period. Thus, past economic circumstances as much as the economic philosophy of governments

have been a principal reason accounting for the differences among countries in the role assigned to the public sector in total investment activity. Undoubtedly, in some countries, the relatively large share of the public sector has conformed with an expressed preference for public ownership of the means of production, while in others it has been regarded solely as a policy of necessity; but whatever

the viewpoint the broad outcome has often been similar. This is not to say that the particular economic philosophy of the government has been without influence on the share of total public investment in planned aggregate investment; this must undoubtedly have modified its share in individual countries, particularly when compared with their own past experience. But, for the kind of inter-country comparison made here and for the group of countries shown in table 2-6, it appears that differences in general economic circumstances have been at least as important an explanation.

The influence of the position taken with regard to the appropriate spheres of public and private initiative is perhaps more evident when planned public investment in individual sectors is considered. In most countries, as might be expected, basic facilities have been assumed to lie largely or entirely within the public sector; the main, if not the entire, burden of planned investment in basic facilities has therefore usually been carried by this sector (*see* table 2-6). Though there have been greater variations among countries, the public sector has also tended to account for a substantial, if smaller proportion of total development expenditure in services. This sector includes general administration, education and other services which are everywhere regarded as the function of government; but it also includes expenditure on publicly financed housing, an element of policy which varies considerably among countries. The most striking differences among countries, however, have appeared in the share of total investment which governments have planned to undertake in the commodity sectors of production.

In the agricultural sector, the share of the central authorities in planned agricultural investment appears to have been related to their share in total investment throughout the economy as a whole. Where government is to account for a relatively large share of total investment, its planned share of agricultural investment is also relatively high. This implies that, in countries where particular emphasis has been laid on public investment to raise the level of total investment, an important reason for this emphasis has been the considered need for public action to augment private investment in the agricultural sector. Countries in which this is particularly evident include Ceylon, India, Pakistan, Senegal, the Sudan and the United Republic of Tanzania.

It is in manufacturing production that the share of the public sector in total industrial investment has been influenced most obviously, though certainly not exclusively, by views regarding the appropriate areas of public and private initiative. While almost all countries have planned to undertake some public investment in manufacturing industry, the role assigned to public investment in this sector has varied

sharply. Its planned share has been very high in such countries as Ceylon, India and the Republic of Korea and very low in such countries as Colombia, the Philippines and Trinidad and Tobago. The large share of public investment in India and the Republic of Korea has partly reflected the priority given in their plans to the development of heavy industry; but it has also reflected the readiness of the public authorities in these countries to take direct public action in order to realize the accelerated development of heavy industry. In India, this has been supported by the fact that, on general political grounds, certain branches of heavy industry are expressly reserved for public ownership and control. Certain other countries have similarly expressed a preference for public ownership and control, particularly in the field of heavy industry. But this has not greatly affected current public investment programmes because, in view of their stage of industrialization, these countries have not stressed the development of heavy industry at the present time. It would be erroneous to suppose, however, that any clear-cut dichotomy exists between developing countries in regard to the role assigned to the public sector in manufacturing industry; rather, the positions taken by countries have ranged over a fairly broad spectrum. While, in a majority of countries, manufacturing industry has been regarded as—at least in principle—the domain of private enterprise, some public investment has none the less been frequently envisaged. The action has usually been sustained on the grounds that the development of a particular new industry was essential, but that private investment for the industry would not be forthcoming. Not only has the extent of such action varied among countries, but there has also been a considerable range of variation in the particular institutional form which it has taken; it has ranged from the establishment of new enterprises under outright public ownership and control, through various forms of mixed public and private enterprises, to the creation of privately owned enterprises with the aid of financial and other assistance from governments.

The strategy implied in public development programmes can be most readily appreciated by considering directly the planned pattern of public investment. The sectoral distribution of planned public investment is shown in table 2-7. The data reveal the relatively heavy emphasis which, as just noted, has been placed on public investment in agriculture by such countries as Ceylon, India, Pakistan, the Sudan and the United Republic of Tanzania; a similar emphasis is evident in Jamaica, Jordan, Malaysia, Morocco and the United Arab Republic. They also indicate the wide variations among countries in the relative importance assigned by the public sector to investment in manufacturing industry. By contrast, they bring out a striking similarity among countries

Table 2-7. Planned Distribution of Public Investment^a
(Percentage)

Group and country	Total	Commodity production			Basic facilities			Services
		Agriculture	Mining	Manufacturing	Total	Power	Transport and communications	
<i>Countries indicating emphasis on commodity production and basic facilities</i>								
United Arab Republic.....	55	24	1	31	25	6	19	20
India	48	21	—	27	42	17	25	10
Pakistan	48	35	3	10	29	10	19	23
Ceylon	47	23	—	24	30	10	20	23
Republic of Korea.....	...	...	38	45	...	...	...	...
<i>Countries indicating emphasis on commodity production and services</i>								
Jordan	45	45	—	—	26	—	26	28
Morocco	41	26	6	8	19	2	18	40
Sudan	41	32	—	9	28	6	22 ^b	32
<i>Countries indicating emphasis on basic facilities and services</i>								
Iran	37	19	2	17	37	11	26	26
Jamaica	34	32 ^c	—	3	25	11	14	41
Tanzania	33	22	2	10	28	3	25	38
China (Taiwan)	30	12	3	15	48	22 ^d	26	22
Malaysia	30	25	—	1	39	19	20	31
Burma	27	15	2	10	37	8	29	36
Nigeria	27	14	—	13 ^e	44	19	26	29
Senegal	26	19	2	5	38	4	34	36
Venezuela	25	17	2	5	35	10	25	40
Philippines	24	11	1	12	69	43	26	7
Kenya	21	—	17	4 ^e	35	...	...	45
Trinidad and Tobago.....	17	14	—	4	50	26	24	32
Chile	15	6	—	8	43	17 ^f	26	42
Colombia	6	5	—	1	52	13	38	42

Source: See table 2-1.

^a Construction is generally included in services, except in a few cases where it is included in total commodity production. For the United Arab Republic, the data refer to the average of the base year and the final year of the plan. For other details, see foot-note ^a to table 2-6.

in the proportion of planned public investment to be allocated to transport and communications; for most countries planned investment in this sector has fallen within the range of 20 to 26 per cent of total public investment.

On the basis of the information about the planned distribution of public investment, three roughly different groups of countries can be identified. These groups reveal broad differences in the relative emphasis which has been placed in public development programmes on public action to develop commodity production, basic facilities or services. The largest group includes, among others, such countries as Colombia, Kenya, Nigeria, Malaysia, Senegal, the Philippines, the United Republic of Tanzania and Venezuela, where public development programmes have concentrated mainly on the development of basic facilities and services. Planned public development expenditure on the commodity sectors of production has been relatively modest and has, moreover, been

^b Including distribution.

^c Including Harker's Hall Multipurpose Reservoir Project.

^d Including Shihman Reservoir Project.

^e Trade and industry.

^f Electricity, petroleum and coal.

concentrated very largely in the agricultural sector. The plans of Jordan, Morocco and the Sudan, which are the three countries forming the second group, have also called for relatively large expenditure on services, but in contrast to the countries in the first group, they have tended to emphasize commodity production rather than basic facilities. Planned expenditure on commodity production has again been directed largely to the agricultural sector. The third group of countries consists of Ceylon, India, Pakistan, the Republic of Korea and the United Arab Republic, where the principal emphasis in development programmes has been on the directly productive sectors of commodity production and basic facilities rather than on services. With the exception of Pakistan, the proportion of public expenditure allocated to manufacturing industry as well as to agriculture has tended to be high in these countries.

The principal source of difference in public development programmes has clearly lain in the proportion

of resources allocated to commodity production on the one hand and to services on the other. For certain of the countries which have allocated a relatively large proportion of resources to services, an influential factor has been the emphasis placed on education and training. As will be seen in the following chapter, such countries as Senegal and the United Republic of Tanzania have earmarked as much as 12 to 14 per cent of total public development expenditure for education and training. Among most of the countries reviewed here, however, the differences in the share of services in total public investment are not ascribable to this factor but to the differing emphasis placed on expenditure on housing and the development of other social services. Thus, in countries where the share of services is relatively low, this mainly reflects a decision to restrict expenditure on public housing and other social services in favour of investment in the directly productive sectors.

Of course, the sharp differences among countries in the allocation of public development expenditure would not be particularly significant if these were expected to be offset by equal, but opposite, differences in the distribution of private investment. It has already been suggested that, to some extent at least, public investment has been used to compensate for expected weaknesses in the performance of private investment in individual sectors. And it is, in fact, true that when the distribution of total investment is considered, the strong contrasts among countries that are apparent in the allocation of public investment tend to be lessened, at least when comparison is made between the three broad categories of commodity production, basic facilities and services. While the range of variation among countries in the proportion of public investment allocated to commodity production—and conversely, to services—is very considerable, it is narrower in the case of total investment. The tendency towards greater similarity among countries in the planned distribution of total investment than of public investment is even more strikingly evident when the shares of manufacturing industry in total investment and in public investment are compared; the wide variation in the proportion of public investment allocated to industry diminishes sharply when total investment is considered.

Still, the tendency towards greater similarity among countries in the distribution of total investment than in the distribution of public investment should not be overstated. The influence of the strategies expressed in public development programmes upon the allocation of total resources has con-

tinued to be quite readily apparent. This certainly does not mean that the sectoral distribution of total and public investment has tended to be the same in each country. Basic facilities, for example, generally account for a larger share of public investment than they do of total investment. But the point is that when comparisons are made among countries of the distribution of total investment, much the same contrasts appear as were evident from the comparisons of public investment only.

Among the countries whose public development programmes placed the main emphasis on commodity production and basic facilities, targets for total investment have generally tended to reveal a similar emphasis (*see table 2-8*). This relation is clearly evident in the plans of India, Pakistan, the Republic of Korea and the United Arab Republic. By contrast, in the larger number of countries whose public development programmes assigned a relatively large proportion of resources to services, the distribution of total investment has generally conformed to a similar pattern. It was also noted above that countries differed quite sharply in the proportion of public investment which they have allocated to agriculture, and a similar contrast is generally evident when the distribution of total investment is considered. The weight given in public programmes to the development of agriculture has been the dominant determinant of the planned share of this sector in total investment. In manufacturing industry, the differences among countries in the share of public investment allocated to this sector are largely offset by the targets for private investment. But, as discussed in the next chapter, the influence of public development expenditure none the less remains evident in the proposed allocation of investment between heavy and light industry. It is in India, the Republic of Korea and the United Arab Republic that the planned share of total manufacturing investment in heavy industry has been largest.

It is quite true that, for certain countries, the planned allocation of total investment among sectors has differed substantially from the planned distribution of public investment. In the plan of Trinidad and Tobago, for example, although public investment has been heavily oriented towards basic facilities, it has been assumed that there would be a relatively large volume of private investment in commodity production and this has considerably affected the planned pattern of total investment. In the main, however, similar contrasts have been evident in the distribution of total investment as of public investment.

Table 2-8. Planned Distribution of (Total) Gross Investment^a
(Percentage)

Group and country	Total	Commodity production			Basic facilities			
		Agriculture	Mining	Manufacturing	Total	Power	Transport and communications	Services
<i>Countries indicating emphasis on commodity production and basic facilities</i>								
Bolivia	61	14	32	12	17	6	11	23
Pakistan	54	27	4	22	24	7	18	22
United Arab Republic	54	25 ^b	—29—	—	28	12	15 ^c	18
India	53	22	—31—	—	29	11	18	18
Republic of Korea	51	17	6	28	49 ^d	...	...	...
<i>Countries indicating emphasis on commodity production and services</i>								
Morocco	60	31	6	23	10	1	8	30
Tunisia	55	39	4	11	10	4	7	35
Trinidad and Tobago	52	5	30	13	16	5	11	33
<i>Countries indicating emphasis on basic facilities and services</i>								
Ethiopia	49	23	5	20	24	4	20	28
Ghana	48	20	5	24	20	4 ^e	16	32
Jordan	48	32	2	14	16	2	14	36
Ceylon	47	24	—	20	20	6	14	33
Senegal	47	13	7	27	21	2	19	32
Philippines	45	9	3	33	40	10	30	15
China (Taiwan)	44	17	3	25	35	22 ^f	13	21
Sudan	43	25	1	16	23	3	20 ^g	34
Venezuela	43	10	11	19	16	5	11	42
Chile	38	10	7	21	31	12 ^h	19	31
Tanzania	38	15	2	21	16	3	13	46
Colombia	36	13	7	16	28	6	23	36
Ecuador	36	15	1	19	26	10	15	38
Iran .....	...	...	1	18	...	...	...	...

Source: See table 2-1.

^a For Bolivia, Ghana and Tunisia, data are for net investment. For other details, see foot-note ^a to table 2-6.

^b Including High Dam.

^c Including Suez Canal.

^d Tertiary production: power, transport and communications, and housing.

^e Volta River Project only.

^f Including the Shihman Reservoir Project.

^g Including distribution.

^h Electricity, petroleum and coal.

The planned pattern of agricultural and industrial output

While the differences among countries in the allocation of investment are instructive, they are not sufficient in themselves to provide an adequate impression of the relative emphasis which plans have laid on development of the different sectors of the economy. This is particularly true of the directly productive sectors formed by commodity production and basic facilities. Differences among countries in the pattern of investment within these sectors do not necessarily mean that comparable differences exist in the planned pattern of increase in output. This is

because there are differences among countries both in the relative size of the main commodity and basic facility sectors and in the relation between a given volume of investment and the resultant increase in output within each of these sectors. In this latter regard, the outstanding example is the agricultural sector where, owing to the wide differences in climatic conditions, soil fertility and other natural circumstances, there are substantial variations among countries in the volume of investment required to realize a given increase in output. Thus although,

as has just been noted, the proportion of total investment assigned to the agricultural sector has been considerably greater in some countries than in others, this has not necessarily implied that a greater relative increase in agricultural output has been planned. For such reasons, it is useful to supplement the comparison which has just been made of investment patterns with a comparison of targets for output in the directly productive sectors.

The rates of increase in output planned for the directly productive sectors are shown in table 2-9, and it will be seen that there has been considerable diversity among countries in the relationship obtaining between rates of increase in agricultural and industrial output. Among countries which have planned to achieve comparatively high rates of increase in agricultural output, some have also aimed for high rates of increase in industrial production,

Table 2-9. Relation between Planned Growth in Agricultural and Industrial Production:
Annual Rates of Increase^a

(Percentage)

Group and country	Agriculture		Industry				
	Total	Food	Total	Manufacturing	Mining	Basic facilities	Construction
<i>Countries indicating high rate of growth in both agriculture and industry</i>							
Venezuela	8	12	9.5	13.5	4.5	11	15
China (Taiwan)	5.5	4.5	11.5 ^b	12.5	5.5	9.5	...
Republic of Korea	5	5	...	11.5 ^c	...	...	...
United Arab Republic	5	6	11	13.5	27.5	5	-0.5
<i>Countries indicating high rate of growth in agriculture and moderate in industry</i>							
Bolivia	6.5	7.5	8	8.5	8.5	5.5	17
Chile	5.5	..	...	6.5	6	...	7
Morocco	5.5	2.5	...	9	4.5	...	7
Ghana	5	4.5	...	7.5 ^d	5	...	...
Kenya	5	3.5	6	5.5	3	7	5
<i>Countries indicating moderate rate of growth in agriculture and high in industry</i>							
Ceylon	4.5	8.5	10.5	12	...	7	13
India	4.5	5.5	...	11 ^e	...	...	...
Tanzania	4.5	7	10.5	14.5	4	8.5	12.5
Sudan	4	8.5	...	21	25	5 ^f	6
<i>Countries indicating moderate rate of growth in both agriculture and industry</i>							
Colombia	4.5	4.5	7	8.5	...	...	...
Ecuador	4.5	...	...	8.5	7	...	12
Trinidad and Tobago	4	...	5	7.5	3	7	5
Tunisia	4	4	6.5	8	2	2	12
<i>Countries indicating low rate of growth in agriculture and high in industry</i>							
Philippines	3	5.5	...	10 ^c	...	...	9.5
Ethiopia	2.5	2	11	13.5	52.5	7.5	10
<i>Countries indicating low rate of growth in agriculture and moderate in industry</i>							
Jamaica	3	...	5	7.5	2	6	5
Malaysia	3	...	7	6.5 ^e	...	4.5	12.5
Pakistan	2.5	4	...	8.5	6	...	...

Source: See table 2-1.

^a Data refer to value added except for food, where they generally refer to quantum of food production. For the Philippines, data are for net output. For other details, see foot-note ^a to table 2-1.

^b Excluding construction.

^c Including mining.

^d Including construction.

^e Quantum of output.

^f Including commerce.

while others have established appreciably lower targets. Similarly, among countries which have planned more moderate rates of agricultural growth, significant differences exist in the planned rates of industrial expansion. The same holds true of countries where the planned increase in agricultural output has been comparatively low.

Clearly, forces making for similarity among countries in the planned pattern of output have tended to be outweighed by other factors giving rise to diversity. These have been compounded of differences among countries both in policies with regard to resource allocation and in their general economic circumstances.

One such source of difference lies in the relative size of the manufacturing sector. In some of the least industrialized countries, modest levels of industrial investment have been associated with very high planned rates of increase in industrial output simply because of the small initial size of the industrial sector. This, for example, goes far towards explaining why the rates of growth in manufacturing production which have been planned in Ethiopia, the Sudan and the United Republic of Tanzania are among the highest of the rates planned anywhere (*see table 2-9*). Again, even though the relative size of the manufacturing sector and the planned volume of investment may be similar, the projected rates of increase in output may have differed because of differences in policy with regard to the development of light and heavy industry. As is discussed more fully in the next chapter, the emphasis placed on heavy industry has varied among countries; and where investment in industries with long gestation periods has been expected to bulk large, the increase in output resulting from a given volume of investment might be expected to be lower over the course of a medium-term plan. Further, where existing industrial capacity has been under-utilized at the onset of the plan period, it has often been possible to assume a greater increase in output than would be warranted solely by the additional planned investment.

But the factors which appear to have been of most general importance in accounting for the diversity in the relation between agricultural and industrial growth are the role assigned in plans to exports and the emphasis placed upon domestic production of food to replace imports. It has to be borne in mind that, for the developing countries reviewed here, the major part of their exports are derived from agricultural or mineral production. The possibilities for the expansion of exports in the light of expectations with regard to the future trend in external demand for major primary products have thus been a major factor determining the target for total agri-

cultural or mineral output. Differences among countries in the planned rates of increase in agricultural or mineral output have been partly the outcome of differences in the structure of their exports and in the expected trends in external demand for these exports. For example, the relatively low rates of growth in total agricultural output planned in Pakistan and the Philippines have reflected the restricted growth expected in world demand for their major agricultural exports; the planned increases in production of food for the domestic market have, in fact, been as high as in many other countries. Similarly, targets for mineral output, at least among countries where this sector assumes significant proportions, have been primarily determined by considerations relating to exports. Thus, the targets set in Bolivia, Chile, Jamaica, Morocco, Trinidad and Tobago, and Venezuela as discussed later in the chapter on foreign trade and payments plans, have reflected differing expectations with regard to external demand and domestic supply conditions.

Contrasts among countries in the targets set for agricultural output have also arisen from the varying emphasis placed upon the expansion of food production for the domestic market. It is true that, as brought out more fully in the detailed analysis of agricultural plans contained in the next chapter, the plans of most developing countries with regard to production for the domestic market have been very similar in their general aims. The objective has been to raise domestic output in order not only to satisfy the expected increase in domestic demand, but also to reduce dependence on imported supplies. Some countries, however, have placed particular emphasis on the expansion of domestic food production as an important means of conserving scarce foreign exchange. In fact, the planned growth rates in food production have tended to be particularly high in countries where, in the recent past, the volume of food imports has been unusually large and has been increasing.

It is apparent that the factors influencing the targets set for agricultural, mineral and manufacturing output have varied with the circumstances of each country and that no common relationship between the planned rates of increase in agricultural and industrial output has therefore prevailed. This is not to say that behavioural or technical relations which make for similarities among countries in the pattern of increase in output have not been evident at all. As discussed more fully in the next chapter, the targets set for the output of basic facilities have generally been quite closely related to the targets established for other sectors. The planned growth in power output has been largely determined by the expected increase in industrial production, and addi-

tional requirements for transport and communications facilities have been broadly related to expected growth in total economic activity of the economy, and particularly of commodity output. Again, the increase in output of the construction industry has been determined by the expected rate of growth in total investment and by any planned change in its composition between construction and equipment. Thus, the main consideration in setting targets for

these sectors has been their consistency with the growth in input requirements likely to be generated by the rest of the economy and with the total supply of resources available for investment. But, as between the broad sectors of agriculture and industry, differences among countries in both circumstances and policies have clearly been more influential in shaping the relationship between their planned rates of growth in output.

Foreign trade targets

In deciding upon the pattern of investment and output, countries have necessarily given much weight to the role to be played by the foreign trade sector. As has just been noted, the targets for agricultural and mineral production have been heavily influenced by export plans; and plans for imports have necessarily been much affected by the changes assumed in the inflow of foreign capital that were discussed earlier. However, a more explicit consideration of export and import targets is helpful in order to clarify the role which foreign trade has been expected to play in national plans.

Foreign trade plans have been conditioned by plans for domestic expenditure and output and, at the same time, have contributed to the determination of these plans. On the one hand, the targets for merchandise imports have reflected the plans made for the rate of growth in domestic expenditure and output and the changes in their composition; on the other hand, the targets set for export earnings have limited the potential growth in imports and, hence in domestic activity. If the provisional estimates of import requirements have exceeded the targets initially set for export earnings supplemented by the expected inflow of foreign capital, it has been necessary to choose from among the alternatives of a deceleration in planned domestic growth, a scaling down of import requirements through an expansion of import-substituting activities, an increase in dependence on foreign capital, a more intensive drive to increase export earnings or some combination of these measures.

The room for choice between these alternative courses of action, however, has usually been quite circumscribed. The possible rate of growth in exports that can be planned is limited by the likely trend in external demand and the structure of the export sector. Most countries have counted upon some diversification of exports to accelerate the growth in earnings. Still, the feasible changes in export composition that can be introduced over current plan periods are quite restricted and the expected growth in export earnings has therefore

continued to be dominated by prospects for the traditional primary commodity exports. As a consequence, for most countries, the planned rate of growth in exports has tended to be lower than, or at least not to exceed, that in gross domestic product; in other words, the proportion of their gross domestic product which is to be exported has been expected to decline or to remain unchanged (*see table 2-10*). The lowest rates of expansion in export earnings have been expected in such countries as Ceylon, Jamaica, Malaysia, Trinidad and Tobago, and Venezuela. For these countries, excepting Ceylon, a deceleration in the growth of exports has been planned in comparison with past trends for special reasons discussed in a later chapter. For most other countries, however, an acceleration in the growth of exports has been planned even though this may not have been sufficient to maintain the share of exports in gross domestic product. In a few countries the planned rate of growth in exports has been particularly high and has meant that an increasing proportion of domestic output has been expected to go into foreign trade. The most striking instances in this regard are Bolivia, China (Taiwan), Ethiopia and the Republic of Korea; only for these countries can it be said that plans have been distinctly export-oriented.

It has been assumed in nearly all developing countries that the growth in foreign exchange receipts derived from export earnings would be supplemented by an inflow of foreign capital. As has been discussed earlier, however, most countries have aimed to reduce their relative dependence on external resources during their current plan periods or, at least, not to permit any increase. In relation to the planned increase in gross domestic product, the size of the deficit in the external balance has been expected to diminish or to remain unchanged. Fulfilment of this condition has meant that the planned rates of growth in merchandise imports have generally had to be lower than planned rates of increase in exports. In other words, as can be

Table 2-10. Planned Relation between Foreign Trade and Gross Domestic Product^a

Country ^b	Merchandise exports as percentage of gross domestic product		Merchandise imports as percentage of gross domestic product	
	Base year	Annual change during plan period	Base year	Annual change during plan period
Malaysia	48	-1.5	38	0.4
Trinidad and Tobago	58	-1.5	62	-2.1
Ceylon	32	-0.9	34	-1.2
Tunisia	22	-0.4	27	-0.7
Venezuela	27	-0.4	15	-0.6
Jamaica	27	-0.4	34	-0.5
Philippines	8	-0.3	11	-0.1
Ecuador	16	-0.2	17	-0.3
Morocco	21	-0.2	23	0.3
Colombia	22	-0.1	22	-0.5
India	4	-0.1	7	-0.1 ^c
Kenya	23	-0.1	29	-0.1
United Arab Republic	12	-0.1	17	-1.1
Sudan	16	—	20	-0.5
Pakistan ^d	6	—	10	1.1
Chile	11	0.1	11	-0.1
Ghana	22	0.1	25	0.1
Burma	18	0.2	23	-1.0
Tanzania	25	0.2	25	0.4
Nigeria	15	0.3	19	0.1
Bolivia	17	0.5	26	-0.5
Republic of Korea	2	0.6	19	0.1
Ethiopia	9	0.7	11	1.0
China (Taiwan)	12	0.8	20	-0.6

Source: See table 2-1.

^a See foot-note ^a to table 2-1.

^b Countries are ranked in descending order of annual decline in merchandise exports as a percentage of gross domestic product.

^c Estimated from the annual average for the plan period as a whole.

^d Total imports referring to 1960/61-1964/65 are partly estimated.

seen from table 2-10, it has generally been assumed that the share of imports in gross domestic product would not only decline but would also decline by more than the share of exports.

These planned changes in imports, as will be discussed later, stand in marked contrast to past

trends when in most countries the supply of imports rose in relation to the growth of gross domestic product. In fact, they constitute not only one of the most striking structural changes proposed in plans but also one of the targets most difficult of attainment.

Summary

In this review of the main characteristics of current development plans, a number of important differences as well as certain similarities have been noted in the strategies proposed by the various countries. Some countries have planned to achieve ambitious increases in the level of total investment over the course of their current plan periods; others have proposed more moderate, though still substantial, increases; and a few have envisaged no marked change. Most countries have accepted a large increase in the proportion of domestic income that is saved as the condition for realization of their higher investment levels. While almost all countries have pre-

dicated their plans on the assumption that there would be a net inflow of foreign capital during the plan period as a whole, one or two have planned to eliminate their dependence on external resources by the end of their current plans and a number of other countries have aimed to reduce such dependence. Still others, however, have expected that their dependence on external resources would continue to increase.

In the allocation of the total resources available for investment between the three broad sectors of commodity production, basic facilities and services,

plans have differed mainly in the relative emphasis placed on commodity production on the one hand and services on the other. For a few of the countries which have emphasized investment in services, a significant influence has been the weight assigned to the development of education. In the main, however, the allocation of a relatively large proportion of resources to services has reflected the priority given to housing and other social services.

The allocation of total resources for investment has been considerably influenced by the strategy expressed in the public development programme. This has been reflected, not only in the distribution of total resources between commodity production and services, but also in the relative emphasis placed on the development of heavy industry. In the few countries which have given high priority to the development of heavy industry, public investment in the manufacturing sector has been significantly large.

There have been appreciable differences among countries in the pace at which the output of agriculture and industry have been planned to increase in relation to one another. While there are forces making for similarity in planned patterns of output, these have been outweighed by the differences among countries in policies and economic circumstances. The greatest similarity among countries is evident in the targets set for the output of the power, transport and construction industries since these targets have generally been determined in the light of the input requirements likely to be generated by

the growth in investment and output of the rest of the economy. The targets for output, however, have been influenced, not only by the planned levels of investment, but also by such factors as the relative size of the manufacturing sector, the relative emphasis on heavy industry and the availability of under-utilized capacity. Targets for agriculture and mining have been, in part, influenced by the role of the export sector in agriculture and mining and by the targets set for agricultural or mineral exports: they have also reflected the emphasis placed upon the development of domestic food production to replace imports. While progress towards self-sufficiency in food supplies has been one of the common features of plans in developing countries, some countries—particularly those with heavy food deficits—have placed particular emphasis on this aim.

Finally, plans have differed considerably in the targets set for exports and imports. While the plans of a few countries have been distinctly export-oriented, most have assumed that the relative size of the export sector would contract over the plan period. The share of imports in total domestic supplies has also been generally expected to undergo a relative decline, and in some countries this planned decline has been very substantial. Certain countries, however, have expected that their relative dependence on imports would increase.

To facilitate comparison, the differences among countries in regard to these major characteristics of their plans have been summarized schematically in table 2-11; for this purpose, countries have been grouped in the same way as in table 2-5.

Table 2-11. Summary of Some Main Characteristics of Current Plans*

Group and country	Targets for investment and the external sector			Pattern of public investment		Composition of output Relative emphasis in targets for output of commodity sectors of production	
	Average level over whole plan period as percentage of gross domestic product		Change over plan period as percentage of gross domestic product	Relative emphasis in public invest- ment programme			
	Investment	External resources	Investment	Exports	Imports		
<i>Group I. Countries indicating very large increase in share of domestic saving in gross domestic product</i>							
(a) <i>And reduction in relative dependence on external resources</i>							
Republic of Korea	23	12	Very large	Substantial increase	Moderate increase	Industry	
Tunisia	31	10	Substantial	Substantial decline	Substantial decline	Industry and agricultural exports Agriculture	
United Arab Republic ...	17 ^b	...	Substantial	Moderate decline	Substantial decline	Industry and domestic food production	
Bolivia	21	3	Moderate	Substantial increase	Substantial decline	Domestic food production and mineral exports	
Senegal	15	...	Substantial	...	...	...
Ceylon	19	2	Substantial	Substantial decline	Industry and basic facilities	Industry and domestic food production	
Chile	16	1	Substantial	Moderate increase	Moderate decline	Mineral and agricultural exports	
China (Taiwan)	20	6	Negative	Substantial increase	Substantial decline	Industry, domestic food production and agricultural exports	
Ecuador	18	4	Substantial	Moderate decline	Substantial decline	Industry	
(b) <i>And increase in relative dependence on external resources</i>							
Morocco	16 ^b	...	Very large	Moderate decline	Substantial increase	Agricultural exports	
Tanzania	18 ^b	...	Very large	Moderate increase	Substantial increase	Industry and domestic food production	
Pakistan	16	10	Very large	No change	Substantial increase	Industry and domestic food production	

Table 2.11. Summary of Some Main Characteristics of Current Plans (*continued*)

Group and country	Targets for investment and the external sector				Pattern of public investment			Composition of output				
	Average level over whole plan period as percentage of gross domestic product		Change over plan period as percentage of gross domestic product		Relative emphasis in public investment programme	Public investment as percentage of total investment in manufacturing industry	Relative emphasis in targets for output of commodity sectors of production					
	Investment	External resources	Investment	Exports				Imports				
<i>Group II. Countries indicating substantial increase in share of domestic saving in gross domestic product</i>												
(a) <i>And reduction or no change in relative dependence on external resources</i>												
Colombia	25	e	Substantial	Moderate decline	Substantial decline	Basic facilities and services	1	Domestic food production and agricultural exports	...			
Iran	16	2	Moderate	...	...	Basic facilities and services	51	...	...	
Kenya	16 ^b	...	Substantial	Moderate decline	Moderate decline	Basic facilities and services	...	Agriculture	...			
Burma	21	4	Negative	Moderate increase	Substantial decline	Basic facilities and services	...	...	...
India	12	3	Substantial	Moderate decline	Moderate decline	Industry and basic facilities	52 ^d	Industry and domestic food production	...			
Ghana	22 ^b	5	Moderate	Moderate increase	Moderate increase	...	...	Domestic food production and agricultural exports	...	
(b) <i>And increase in relative dependence on external resources</i>												
Ethiopia	14	5	Substantial	Substantial increase	Substantial increase	...	...	...	Industry and agricultural exports
Philippines	16	2	Substantial	Substantial decline	Moderate decline	Basic facilities	9	Industry and domestic food production	...			
<i>Group III. Countries indicating slight or no increase in share of domestic saving in gross domestic product</i>												
(a) <i>And reduction or no change in relative dependence on external resources</i>												
Trinidad and Tobago ..	26	8	Negative	Substantial decline	Substantial decline	Basic facilities and services	6	Agriculture	...			
Nigeria	15	6	No change	Substantial increase	Moderate increase	Basic facilities and services	...	...	...

Sudan	11	3	No change	No change	Substantial decline	Agriculture and services	33	Industry and domestic food production
(b) <i>And increase in relative dependence on external resources</i>								
Venezuela	20	—	Substantial decline	Substantial decline	Substantial decline	Basic facilities and services	10	Domestic food production
Jamaica	20 ^b	...	No change	Substantial decline	Substantial decline	Basic facilities and services	...	Agriculture
Malaysia	16	4	Very large	Substantial decline	Substantial increase	Basic facilities and services	...	Industry

Source: See table 2-1.

^a For differences in definitions of output and investment, see foot-note ^a to table 2-1 and foot-note ^a to table 2-4. Data on annual changes in investment, merchandise exports and merchandise imports as percentages of gross domestic product are shown in tables 2-4 and 2-10. Groupings based on these annual changes are as follows. *Investment:* more than one, very large; 0.5-1, substantial; 0.1-0.4, moderate. *Merchandise exports and imports:* 0.3 or more, substantial; 0.1-

0.2, moderate. Details regarding pattern of public investment and composition of output are shown in tables 2-7 and 2-9. Countries are listed in the order followed in table 2-5.

^b Average of the base year and the final year of the plan.

^c On the assumption that the terms of trade would deteriorate, the plan indicates the net inflow of external resources.

^d Including mining.

Chapter 3

PRODUCTION AND MANPOWER PLANS

It is the purpose of the present and the following two chapters both to explore in greater detail the main targets of development plans which were set forth in the preceding chapter and to review these targets in the light of past experience and of the policies proposed for their implementation. In this more detailed analysis, the targets for output have been taken as the point of departure since these targets constitute the final aim of plans to which all the other

changes proposed in plans are geared. Besides the production plans for agriculture and industry, however, this chapter also contains a review of manpower plans. On the one hand, the supply of labour and, particularly, of trained manpower is one of the principal means for the realization of production plans; on the other hand, production plans largely determine the extent to which the problem of unemployment or under-employment is to be lessened during the plan period.

Targets and policies for agricultural production

Though the current plans of developing countries have invariably recognized the strategic role of agriculture, it is industry which has been expected to constitute the most dynamic element in economic growth. It would be erroneous to suppose, however, that agriculture and industry have been posed as competing sources of economic growth; plans, in fact, suggest that one lesson which has been well learned from the nineteen fifties is the complementary nature of agricultural and industrial growth. Hardly any developing country, in view of the character of its natural resource endowment and the trends in world demand for primary products, has been able to consider the possibility of accelerating domestic growth through specialization in agricultural production for export; this is a fact which has been amply recognized for many years. On the other hand, the emphasis on industrial development has sometimes led to an undue neglect of the role of domestic agriculture in over-all growth; and this has given rise to difficulties that have seriously impaired the progress of the economy as a whole. Domestic food production has often failed to keep pace with the growth in population; supplies of raw materials for the newly established industries have not been forthcoming in sufficient quantities; and in some countries, agricultural exports have even fallen short of the moderate growth in world demand. Foreign exchange expenditure on imported food and materials has increased and, in some cases, export earnings have also declined. Industrial growth has consequently been impeded either by the recurrent need to restrain

domestic expenditure in order to dampen inflationary pressure on urban food supplies or by shortages of imported capital equipment and industrial materials. It is a reflection of this experience that current plans have generally given special attention to agricultural development and, in particular, to food production and the foreign exchange implications of agricultural growth.

It is perhaps indicative of the importance assigned to agricultural growth that, in contrast to plans for industry, plans for the agricultural sector in nearly all countries have set targets for a range of specific commodities. Most plans have assumed that, through their programmes for public expenditure, governments would play a substantial role in the development of agriculture; and the establishment of targets for output has provided a framework for guiding public investment programmes. Although such targets have been set, however, it is apparent that the planning of the inputs necessary to facilitate their achievement has often not been worked out in any detail, but has been left for later decision in the process of plan implementation (*see table 3-1*).

The method of estimating targets for output has been broadly the same in all countries. In principle, targets have been set by balancing the estimated future demand against general views about the possibilities for increased production as shaped by the likely availability of resources. On the demand side, estimates have been made of requirements both for domestic consumption and for export. As regards

Table 3-1. Synopsis of Content of Plans for Agriculture

Country	Number of crops for which output targets are specified	Input targets			
		Land settlement and reclamation and soil conservation	Irrigation and flood control	Fertilizers	Capital equipment
Tunisia	41	Yes	Yes	Yes	Yes
United Arab Republic.....	30	Yes	Yes	Yes	Yes
China (Taiwan)	16	Yes	Yes	Yes	Yes
Ceylon	12	Yes	Yes	Yes	Yes
Burma	8	Yes	Yes	Yes	Yes
Iran	19	No	Yes	Yes	Yes
Pakistan	12 ^a	Yes	Yes	Yes	No
India	10 ^a	Yes	Yes	Yes	No
Venezuela	30	...	Yes	...	Yes
Ghana	23	Yes	Yes	No	No
Tanzania	14	Yes	Yes	No	No
Trinidad and Tobago.....	12	Yes	Yes	No	No
Kenya	9	Yes	Yes	No	No
Morocco	6	Yes	Yes	No	No
Chile	4	Yes	...	...	Yes
Republic of Korea.....	4	Yes	Yes	No	No
Malaysia	3 ^a	Yes	Yes	No	No
Ethiopia	12 ^a	No	No	No	Yes
Sudan	11	No	Yes	No	No
Nigeria	4	No	Yes	No	No
Jamaica	—	Yes	Yes	No	No
Colombia	17	...	...	...	...
Bolivia	15	...	...	...	...
Philippines	13	No	No	...	No
Senegal	—	Yes	No	No	No
Ecuador .....	—	...	...	...	...
Jordan	—	No	No	No	No

Source: See table 2-1.

^a Targets for groups of crops.

food crops, for example, the effects of growth in population and *per capita* income on the demand for food have been assessed; however, the effect on demand of changes in prices or of the possible substitution of lower-quality by higher-quality foods at higher levels of income has usually been ignored. But a few countries, such as Ghana, have also utilized nutritional norms as a guide in determining food requirements.

The main difficulty in establishing targets has arisen from the supply side. In the first place, the problem of raising agricultural output is not just a matter of increasing the supply of agricultural inputs, such as irrigation, fertilizers, improved seeds or capital equipment; the effective utilization of these inputs is also heavily influenced by the complex institutional factors affecting the incentives of farmers and peasants. But even aside from these factors, there are substantial difficulties in estimating the technical relation likely to prevail between the physical inputs and output. Since output is the product of a number of

joint inputs, a mechanical separation of input-output ratios may produce serious errors in the estimation of output. Thus irrigation water and fertilizer, when applied separately, may add only a small increase to output, but when applied jointly may produce proportionately a much larger output. This joint effect has been difficult to take into account in determining targets.

Moreover, while the effect of joint inputs could perhaps be ignored, the problem of competing inputs could not be avoided, and some solution, however arbitrary, has had to be adopted in order to allocate investment among alternative uses. Thus a choice has had to be made between major irrigation projects and minor irrigation works, between community development and extension services, or between chemical fertilizer and livestock. In major projects, such as river valley projects or major irrigation schemes, cost-benefit studies have sometimes been used to provide a guide to investment decisions. In most cases,

however, investment decisions have reflected the judgement of the planning authorities and ministries based on their partial knowledge of past experience.

PLANNED AND PAST RATES OF GROWTH IN PRODUCTION¹

The increases in agricultural output projected in plans have frequently been very high. As many as ten of the twenty-three countries shown in table 3-2

Table 3-2. Planned and Past Annual Rates of Growth in Agricultural Production^a

(Percentage)

Country	Annual rate		Approximate difference
	Planned	Past	
Jordan	12.5	...	...
Venezuela	8	5.1	3
Bolivia	6.5	4.1	2
Chile	5.5	1.0	4.5
China (Taiwan)	5.5	3.8	1.5
Morocco	5.5	-0.7	6
Republic of Korea	5	2.9	2
Ghana	5	...	...
United Arab Republic	5	3.1	2
Kenya	5	...	...
Ceylon	4.5	2.6	2
Ecuador	4.5	2.8	2
India	4.5	2.2	2.5
Tanzania	4.5	2.7	2
Colombia	4.5	3.6	1
Trinidad and Tobago	4	...	...
Sudan	4	...	...
Tunisia	4	3.3	0.5
Philippines	3	1.1	2
Jamaica	3	2.8	—
Malaysia	3	2.9	—
Pakistan	2.5	0.6	2
Ethiopia	2.5	1.9	0.5

Source: See table 2-3.

^a Data are for value added in the agricultural sector, except for past growth in Ceylon, where they refer to volume of output. For other details, see foot-note *a* to table 2-1 and foot-note *a* to table 2-3.

have planned for an annual increase in output of 5 per cent or more, and most countries have envisaged rates of growth equal to, or exceeding, 4 per cent. It is apparent that, if these planned rates were to be generally achieved, a significant break with the past performance of agriculture in the developing countries would have occurred. Throughout the nineteen fifties, the annual rate of increase in agricultural output generally did not exceed 3 per cent and often fell below this figure. In fact, agricultural output in a number of countries failed to keep pace with the growth of population.

¹ Throughout this report, data on past trends refer to the period between 1953-1954 and 1959-1960 unless otherwise stated.

Typically, the target for agricultural output has implied an acceleration in the growth of output over past performance of the order of about 2 per cent *per annum*. In only a few countries, such as Ethiopia, Jamaica, Malaysia and Tunisia, has the planned rate of growth corresponded roughly to past performance; and in these countries both the past and the expected rates of growth have been relatively modest. But for the great majority of countries, the targets which have been set have been clearly based on the assumptions that the resources available for expanding agricultural output would be considerably enlarged and that the institutional difficulties which weaken the incentive of peasants and farmers to raise output would be substantially lessened.

THE PLANNED PATTERN OF PRODUCTION

In assessing the feasibility of the targets for total agricultural output, a factor of some importance is the emphasis which has been placed in many plans on food production for the domestic market rather than on cash crops for export. It has commonly been the experience in the past that the production of cash crops for export has been more responsive to changes in market demand than has domestic food production; this has been because food production takes place largely within the traditional subsistence sector. Thus, in stressing domestic food production as the main source of the planned acceleration in total agricultural output, plans have sought the greatest growth in the least flexible segment of the agricultural economy.

Clear instances of emphasis on domestic food production are to be found in the plans of such countries as Ceylon, India, Pakistan and the United Arab Republic (see table 3-3). Although these countries depend heavily on exports of agricultural commodities, expected trends in world demand for these exports have not encouraged them to establish high targets for their production. In certain other countries, such as Bolivia and Venezuela, very high rates of expansion have been planned for both agricultural exports and domestic food production but, since exports account for a relatively small proportion of total agricultural output, it has again been the planned pace of expansion in food production that has been the dominant factor accounting for the high planned rate of increase in total output. There has, however, been a number of countries, including China (Taiwan), Colombia, Ethiopia, Ghana, Morocco and the Republic of Korea, where plans for exports have exerted a significant upward influence on the target for agricultural output as a whole. But it will be noted that, in most of these countries, substantial rates of increase in domestic food production have also been envisaged.

Table 3-3. Planned Annual Rates of Growth in Agricultural Production and Exports^a
(Percentage)

Group and country	Agricultural production		Agricultural exports
	Total	Food	
<i>Countries indicating emphasis on domestic food production</i>			
United Arab Republic..	5	6	3
Ceylon	4.5	8.5	2.5
India	4.5	5.5	...
Tanzania	4.5	7	...
Iran	4	5	...
Sudan	4	8.5	4
Tunisia	4	4	...
Philippines	3	5.5	...
Pakistan	2.5	4	2
<i>Countries indicating emphasis on exports as well as on domestic food production</i>			
Venezuela	8	12	12.5
Bolivia	6.5	7.5	18.5
China (Taiwan)	5.5	4.5	7.5 ^b
Morocco	5.5	2.5	5.5
Ghana	5	4.5	6.5
Kenya	5	3.5	...
Republic of Korea.....	5	5	25
Colombia	4.5	4.5	5
Ethiopia	2.5	2	5.5

Source: See table 2-1.

^a Data for total agricultural production refer to value added in agriculture; for food production generally and for exports, they refer to quantum. Data for food generally pertain to major food-grains only. Discrepancies in total and components may arise in some cases owing to differences in concepts and time periods. For other details, see foot-note ^a to table 2-1.

^b 6.5 to 8 per cent.

Whatever the target for agricultural exports, the projected rate of increase in domestic food production has generally been relatively high, amounting in most countries to an annual increase of 4.5 per cent or more (see table 3-4). And the reasons inducing countries to set such relatively high targets are not difficult to appreciate. For many countries, the expected rates of growth in population alone are between 2 and 3 per cent *per annum*. While the planned increases in food production amply exceed expected rates of growth in population, it must be remembered that a rising level of *per capita* income has also been assumed in all plans; and this has had to be taken into account in estimating future food requirements. With the income elasticity of demand for food often as high as 0.8 in developing countries, and with the planned growth in *per capita* income often assumed to exceed 2 per cent *per annum*, the additional food requirements implied by plan targets have been substantially greater than the expected increases in population.

But plan targets for food production have also been heavily influenced by the desire to reduce foreign exchange expenditure on imports. In almost all the plans for which data on planned imports of food-grains and apparent domestic consumption are available, a reduction in dependence on imports over the

Table 3-4. Planned and Past Annual Rates of Growth in Food Production^a

Country	(Percentage)			
	Total		Per capita	
	Planned	Past	Planned	Past
Venezuela	12	10.2	8.5	6.2
Ceylon	8.5	4.2	5.5	1.7
Sudan	8.5	2.3	5.5	-0.8
Bolivia	7.5	...	5	...
Tanzania	7	...	5	...
United Arab Republic.	6	...	3.5	...
India	5.5	2.6	3.5	0.5
Philippines	5.5	3.6	2	0.6
Iran	5	3.3	2.5	2.3
Republic of Korea.....	5	-0.3	2	-3.0
China (Taiwan)	4.5	4.3	1.5	0.7
Colombia	4.5	1.7	1.5	-0.5
Ghana	4.5	4.9	1.5	3.6
Pakistan	4	2.3	2	0.2
Tunisia	4	-2.2	2	-3.6
Kenya	3.5	-0.9	0.5	-3.8
Morocco	2.5	-3.7	0.5	-6.3
Ethiopia	2	-0.3	0.5	...

Source: Bureau of General Economic Research and Policies of the United Nations Secretariat, based on Statistical Office of the United Nations, *Yearbook of National Accounts Statistics* and *Monthly Bulletin of Statistics*; Food and Agriculture Organization of the United Nations, *Production Yearbook* (Rome), and national development plans.

^a Data generally refer to quantum of major food-grains. For other details, see foot-note ^a to table 2-1 and foot-note ^a to table 2-3.

current plan period has been envisaged (see table 3-5); and a number of countries, such as Bolivia, China (Taiwan), India, Pakistan, the Philippines and the Sudan, have aimed to achieve the complete elimination of dependence on imports of food-grains by the end of their current plans. These targets for import substitution have obviously affected the targets set for domestic production; thus, it is not coincidental that in such countries as Bolivia, Ceylon, the Sudan and Venezuela where substantial reductions in dependence on food imports have been envisaged, relatively high targets have also been selected for domestic food production. However, while the reasons underlying the general emphasis placed on an acceleration in the growth of domestic food production can be readily understood, the question remains as to how far such an acceleration is feasible.

Table 3-5. Planned Reduction in Share of Imports in Apparent Consumption of Food^a

(Percentage)

Country	Share of imports in apparent consumption of food		Annual reduction in share
	Base year of plan	Final year of plan	
Ceylon	44	14	2.7
Sudan	27	—	2.7
Bolivia	27	—	2.1
Pakistan	8	—	1.7
Venezuela	18	11	1.4
India	5	—	1.1
Philippines	4	—	1.0
Iran ^b	8	2	0.8
United Arab Republic	14	10	0.7
Colombia	7	6	0.2
Republic of Korea....	4	3	0.2
China (Taiwan)	8	—	...
Ghana	13	14	-0.2

Source: See table 2-1.

^a See foot-note *a* to table 2-1.

^b Data refer to net imports.

AGRICULTURAL POLICIES Investment policies

The realization of plans for an acceleration in the growth of agricultural production constitutes one of the most difficult of the tasks confronting the developing countries. In the past, the tradition-bound character of the agricultural economy has formed a powerful barrier to the introduction of more modern methods of production; within the confines of the prevailing institutional structure, changes have been viewed with mistrust by landowners and peasants alike and, at best, have been accepted only grudgingly and slowly. Thus, in formulating policies for the implementation of agricultural plans, governments have had to concern themselves, not only with the problem of increasing the level of investment and other development expenditure in agriculture but also with measures to reform the institutional structure and to strengthen the incentive of farmers and peasants to utilize more modern methods of production. In assessing the feasibility of plan targets, both of these aspects of policy have to be considered; they are discussed separately in the paragraphs which follow.

Plans for investment in the agricultural sector were touched upon briefly in the preceding chapter; but before further comment is made here, a word of caution is necessary. In most plans, the distinction drawn in national accounts between the investment expenditure and current expenditure of general government has not been rigidly adhered to. The expenditure classified as investment has fre-

quently included expenditure on other items besides fixed assets or stocks. Especially with regard to planned public expenditure on agriculture, it has often been neither feasible nor particularly useful to attempt to distinguish between investment and consumption expenditure. Expenditure on fertilizers or agricultural extension services, for example, has been no less significant for agricultural development than expenditure on irrigation works or machinery. In this context, the concept of development expenditure has been operationally more meaningful than that of gross capital formation. In practice, while some plans have distinguished between investment and total development expenditure, most have tended to use investment as a broad term which includes major items of development expenditure that would not be formally defined as capital formation; and this should be borne in mind in the present analysis.

The proportion of total investment allocated to agriculture has varied quite widely among countries (see table 2-8). It has tended to be particularly high among countries in the Middle East and North Africa; thus in Jordan, Morocco and Tunisia, the planned share of agriculture in total investment has exceeded 30 per cent. By contrast, it has tended to be especially low in Latin American countries; in Bolivia, Chile, Colombia, Ecuador and Venezuela, this proportion has not exceeded 15 per cent. In most of the countries of Africa and Asia, the share has lain somewhere between these two extremes, usually being within the range of 20 to 30 per cent. It will not be surprising, however, that when rates of growth in agricultural output are considered there has been no corresponding division of countries by regions. The allocation of a relatively high proportion of total investment to agriculture, in other words, has not necessarily meant that the rate of growth in agricultural output has also been high. In part, this has reflected the differences among countries in the relative size of the agricultural sector and in the planned volume of total investment as a percentage of gross domestic product. In large part, however, it has also arisen from the wide differences in the increase in output expected from a given volume of investment.

The diversity in expectations regarding the relation between investment and output is amply illustrated by the data shown in table 3-6. The relation between investment and the expected increase in output has varied from as little as one in the United Republic of Tanzania to over 4 in Trinidad and Tobago. Differences among countries in climatic conditions and soil fertility have undoubtedly contributed heavily to the variations in the volume of investment estimated as necessary to achieve a given increase in output; this alone, for example, probably accounts in large measure for the relatively high pro-

Table 3-6. Planned Ratio of Gross Investment to Increase in Gross Output in Agricultural Sector^a

Ratio	Country
4 to 5.....	Trinidad and Tobago
3 to 4.....	Jordan, United Arab Republic, Venezuela
2 to 3.....	Chile, China (Taiwan), Colombia, Pakistan, Republic of Korea
1 to 2.....	Ceylon, Ethiopia, Sudan
Less than 1.....	Tanzania

Source: See table 2-1.

^a See foot-note *a* to table 2-1.

portion of total investment allocated to agriculture in countries of the Middle East and North Africa. However, differences among countries in the pattern of their planned development expenditure in agriculture have also contributed to the wide dispersion in their investment-output ratios. Where a large proportion of planned development expenditure has been devoted to major irrigation works or the establishment of new organizational forms needed for servicing modern agriculture, such as extension, research and marketing services, a relatively modest increase in output over the current plan period has had to be assumed; for, though their benefits may extend over many decades, such investments may have long gestation periods. On the other hand, where the emphasis in development expenditure has been placed on investment in assets such as tractors or small-scale irrigation works or on the expansion in supplies of current inputs such as fertilizers, improved seeds or pesticides, the benefits in increased output have been more immediately expected.

A major influence on the pattern of investment expenditure in agriculture has been the role of the public sector. As has been seen earlier, the share of the public sector in total agricultural investment has varied quite widely, but in a majority of countries it has been substantial and in some it has accounted for the preponderant part of total investment. Public investment has generally been allocated to activities which private investment can scarcely be expected to undertake but which are, nevertheless, critical for agricultural growth. Thus, the major irrigation works, land reclamation, soil conservation, extension services, co-operative societies and community development, agricultural research and agricultural credit have received large shares of public investment. Moreover, some countries, such as Ghana and the United Republic of Tanzania, have undertaken to organize large-scale state or co-operative farms on the ground that the transformation of peasant cultivation is necessarily slow and halting, and that the overhead cost is relatively high. Large-scale state farms or co-operative farms have been advocated

by these countries as a means of obtaining quick results, especially where large tracts of virgin land are available.

The emphasis which has been placed in public investment programmes on the development of either the agricultural infra-structure or ancillary services can be readily seen from table 3-7. In general, direct

Table 3-7. Percentage Distribution of Planned Public Expenditure for Agricultural Development

Country	Irrigation, drainage, land reclama- tion and improvement and soil conservation	Crop produc- tion, animal husbandry, forestry and fisheries	Organiza- tion, services and other
Jordan	91	— 9 —	
Sudan	80	13	6
India	66	18	16
Pakistan	51	— 49 —	
Burma	45	40	15
Iran	32	18	49
Jamaica	28	14	57
Trinidad and Tobago..	10	14	76

Source: See table 2-1.

expenditure on crop production or animal husbandry has accounted for a minor part of total public expenditure.

A further factor of importance in accounting for the diversity among countries both in the planned pattern of investment and in the expected relation between investment and output is the degree to which plans have envisaged an enlargement of the area under cultivation. In some densely populated countries, a substantial increase in the area under cultivation has not been a practical proposition, and any increase which has been planned has been largely a matter of bringing land previously considered as sub-marginal into production. For these countries, the growth in total agricultural output has depended almost entirely on the increase in yields per acre that can be achieved. This, for example, has been true of the increase in agricultural output planned in Chile, China (Taiwan) and the Republic of Korea; the planned increase in the area under cultivation has been small or negligible and main reliance has been placed upon the realization of increased yields (*see* table 3-8). At the other extreme have been countries such as Bolivia and Venezuela where the availability of large tracts of virtually unused land has permitted the introduction of large land development and resettlement schemes. In fact, in Bolivia, the achievement of the high rate of growth planned for total agricultural output rests very largely on the success with which the programme

Table 3-8. Planned Annual Rates of Growth in Agricultural Output and Cropped Area^a
(Percentage)

Country	Agricultural output per acre	Cropped area	Total agricultural output
Chile	5.5	—	5.5
China (Taiwan)	5	0.5	5.5
Republic of Korea ...	4.5	0.5	5
Venezuela	4.5	3.5	8
United Arab Republic	3.5	1.5	5
Trinidad and Tobago	3	1.5	4
Ceylon	2.5	2	4.5
Bolivia	1.5	4.5	6.5
Jamaica	1.5	1.5	3
Sudan	1.5	2.5	4

Source: See Table 2-1.

^a Data for agricultural output refer to value added in agriculture, except for Burma where they refer to production. For other details, see foot-note *a* to table 2-1.

of land development and resettlement is implemented; it is the additional output from the areas newly brought under cultivation rather than the increase in yields per acre which has been expected to make the target for total output possible. Most countries appear to lie somewhere between these extremes; both an increase in the area under cultivation and an increase in yields have been expected to contribute to the growth of total output. For some countries, enlargement of the area under cultivation may have represented a relatively easy and economical way of raising agricultural output; this is particularly true of countries where there are still fertile but under-populated areas. In others, heavy investment may have been required to enlarge the cultivated area; in the United Arab Republic, for example, bringing the semi-arid zones under cultivation has necessitated the construction of very large irrigation schemes. But, though the requisite investment may have been large, one advantage of a policy of land development that has been generally noted in plans is that modern methods of production can be readily introduced into these new areas.

Policies for institutional reform

Land reform and related measures

The principal obstacle to agricultural development in the developing countries is not so much the inadequacy of resources for investment as the difficulty of implementing the development programme. The difficulty in implementation arises from two types of impediments. The first follows from the peculiarities of property relationships in land and the second from the traditional social structure and psychological values often associated with it. In many countries, particularly in Asia and Latin America, the exis-

tence of extreme inequality in land ownership is associated with absentee landlordism, landlessness, excessive competition for tenancy, high rent, usury and inadequate incentives for the peasants and small holders. Investment in improvement of land and interest in advanced methods of cultivation consequently suffer, since neither the landlord nor the tenant is anxious to take the risk involved in such innovations. The lack of enterprise in agriculture is further aggravated by the attachment of the peasants to the traditional mode of life with which the traditional methods of cultivation are intimately linked. Thus, the rural structure of property ownership, production techniques and the cultural values of rural society are interwoven in a system which is strongly resistant to change. Efforts to improve the technique of cultivation in isolation from its social and economic milieu have but small chance of success in such a situation.

In the plans of those countries which have advocated land reform, the aim has been primarily to replace functionless landownership by peasant proprietorship. Such a change has been expected to enhance social justice and to increase social integration. From the point of view of economic growth, its main contribution has lain in loosening the hold of tradition on agriculture and on rural life in general. The peasant has become interested in improving his own land and in obtaining a higher yield from it. The advice that the extension officers and the community development organizers may give has been more eagerly listened to; and agricultural credit, fertilizers and improved seeds have been more readily demanded. Measures such as agricultural extension services and rural self-help movements, which have often been tried for decades without much impact in many countries, have acquired a new meaning.

Of the plans reviewed in this report, only eight have explicitly indicated provision for some measure of agrarian reform in their current plan documents. However, a number of countries which do not mention land reform measures in their plans, such as Bolivia, China (Taiwan), the Sudan and the United Arab Republic, had already introduced programmes of land reform prior to the drafting of their plans.² In certain other countries which had also previously initiated measures of land reform, these programmes have run into serious difficulties owing to political opposition, the inadequacy of financial provisions, the scarcity of administrative personnel and the absence of cadastral surveys and ownership docu-

² See United Nations, *Progress in Land Reform: Third Report* (Sales No.: 63.IV.2); Land Bureau of Taiwan Provincial Government, *Land Reform in Taiwan* (Taipei), May 1955.

mentation. Finally, there are some countries where the question of land reform is still under discussion.

Several countries seeking to introduce land reform have experienced a number of side effects which have affected agricultural performance unfavourably. First, a prolonged political debate on land reform has adversely affected current investment on land. Secondly, land reform has removed the traditional sources from which supplies of physical inputs have been obtained; it has therefore been necessary to supplement land reform with other measures to create new channels for the marketing of inputs and outputs and to provide new sources of credit. Thirdly, the size of the holdings after redistribution has sometimes become smaller than what the optimum would be in relation to factor supplies. In the plan of Bolivia, for instance, mention was made of the difficulty of introducing technological innovations into agriculture owing to the fragmentation of landholdings consequent upon land reform. This situation has called for the organization of co-operatives, as has been suggested in India, or for programmes of land consolidation, as in China (Taiwan) and Kenya.

The need for educating the farmers and peasants has been emphasized in all the plans. As in the plan of the United Republic of Tanzania, it is not the sophistication in the plan which determines its success, but the attitude of the peasant. The plans have made provision for several types of institutions to bring about a change in the attitude of the peasant. The most common has been the establishment and expansion of agricultural extension services. Some of the plans have provided for the establishment of a network of community development organizations. Others have advocated the formation of farmers' associations under official sponsorship. The educational role of the co-operative movement has also been recognized and the expansion of co-operation in production, marketing and financing has been favoured. An innovation proposed in the plans of Ethiopia, Ghana, India, Jamaica and Kenya is the formation of large-scale state farms for the purpose of both demonstration and production. The plan of Ghana has favoured the formation of large state farms in order to obtain quick results; the trained personnel of the agricultural ministry have been utilized to manage the farms.

Price policy

The crucial role of an effective price policy for the successful implementation of planning in a mixed economy has been well recognized in the plans. Among the many objectives of a price policy, the need for price stabilization and the use of price incentives to stimulate the investment and production efforts of peasants and farmers have been most com-

monly advocated in plans. Thus, the Indian plan has drawn attention to the possibility of inflationary pressure being generated by the heavy investment programme undertaken under the plan and has noted the adverse effects of increases in prices of food, other essential commodities and export products. The plans of Ceylon, China (Taiwan), Ghana, Iran, Jamaica, the Philippines and Trinidad and Tobago have suggested the adoption of measures which would ensure an adequate income to farmers so that incentives might not be adversely affected by sudden declines in prices.

The measures suggested in the plans to fulfil these two objectives of price policy have consisted of subsidies and taxation to influence production and investment; guaranteed price; buffer stocks and open-market operations in food-grains; marketing boards, co-operative marketing and state trading; public monopolies in trade, particularly of major export products, imported food products and major input products, and production and price controls. The most generally favoured measure seems to be the operation of a system of subsidy, taxation and guaranteed prices. These have been widely advocated and adopted because of the comparative ease with which they can be put into effect. Where the administration is not strong, however, the policy of subsidy or guaranteed prices is liable to be misused.³ Moreover, it is difficult to withdraw a subsidy or price guarantee once it has been introduced, even though it may lead to over-investment in the production of a commodity and a heavy drain on the exchequer. The guaranteed price system can be given added strength by buffer stock operations; but buffer stocks require extensive organization, the building of warehouses in all important trading centres, and considerable skill in market operations; and, save in India, this measure has not been seriously considered in developing countries. Marketing boards and organizations under public or semi-public authority have been used more extensively, particularly for export commodities and for imports such as food-grains and fertilizers which are in wide demand. A number of plans, especially in Africa and Latin America, have paid considerable attention to the problem of the marketing of rural produce. The monopolistic control exercised by traditional traders is believed to have severely impaired the effectiveness of prices as an incentive to greater output on the part of the peasants, since price increases have been largely absorbed in middlemen's profits. The organization of marketing co-operatives, the construction of storage facilities and the provision of grading and standardization services are among the measures

³ Cf. Government of Ceylon, *Budget Speech, 1960-1961*, by the Minister of Finance (Colombo), page 14.

which have been proposed, or taken, to remedy defects in the marketing system.

Credit policy

A major element in agricultural policy is concerned with the provision of adequate credit for the farmers and peasants. The credit needs of the small farmers and peasants in developing countries are commonly met by the landlords, the moneylenders or the large farmers, who occupy a monopolistic position as suppliers of credit. The interest they are able to charge is consequently high and the conditions of repayment are onerous. This has discouraged investment in agriculture and the use of credit for improving techniques of cultivation. To meet the need for rural credit, plans have suggested the formation of agricultural banks and the extension of credit by co-operatives or agricultural development corporations on more liberal terms. In India, for example, the Food Corporation, which was recently established to facilitate the supply of food-grains to the cities, has been authorized to issue loans to farmers and to accept repayment in grains. Co-operative credit societies, however, usually cannot provide the long-term credits particularly needed for land improvement. Co-operative land mortgage banks and agricultural development corporations are the appropriate organizations for such loans. For the proper functioning of land mortgage banks, firm titles to land and efficient valuation are required, and these often do not exist in developing countries. In many of the plans, particularly for the African countries, provision has therefore been made for cadastral surveys and the registration of titles as steps towards providing the security of tenure without which a long-term interest in improving land and capital assets can hardly be nurtured.

Other measures

Numerous other measures have been discussed in the plans for agricultural development, most of which have been in operation in many countries for a long time. Thus, expansion in agricultural research and training, preparation of cadres of all ranks for the extension services, community development and co-operative organizations, development of plant and animal breeding centres and veterinary hospitals, extension of rural self-government, and arrangements for participation of the rural population in determining the plan targets are some of the more important measures that have been suggested in plans.

Faced with an unbridgeable gap between what is needed and what can be provided for agricultural development, a number of novel suggestions have been introduced in some plans. Thus, the Sudan plan has suggested the formation of mobile veterinary hospitals, the plan of Kenya has proposed the establishment of large co-operative land settlements, the Indian planners have decided to initiate a rural works programme to provide employment for the rural unemployed. The Ethiopian plan has proposed to establish agricultural tool and equipment making factories and to arrange for the renting of heavier equipment through co-operatives. The plan of Bolivia has suggested the establishment of agricultural machinery stations in newly settled areas. The plan of Ghana has recommended use of the services of the works brigade for agricultural development. While not all of these experiments may be successfully implemented, they should nevertheless contribute to knowledge of the techniques of agricultural development.

Targets and policies for industrial production

While plans have generally been careful to give proper weight to agriculture, the importance assigned to agricultural development has none the less been rooted in the recognition that it constitutes a condition of industrialization. All plans have accepted industrialization as the central feature of their long-term economic growth; and in current development plans, it is industry which generally constitutes the leading sector.

Industry—which is broadly conceived here to include power, transport and communications, construction and mining as well as manufacturing industry proper—has received considerable attention in most plans. But the extent to which plans have been expressed in some detail has varied consider-

ably both among countries and as between the different major sectors of industry. At the level of broad targets, almost all plans have specified targets for the output of manufacturing industry as a whole, and most plans have indicated the volume of investment required to realize these targets (*see table 3-9*). The output and investment requirements of power have also been generally stated. Fewer plans have included estimates of the planned increase in total output of the transport and communications industries, the reason being that a number of countries do not possess statistical information about the value of production in these industries; most plans, however, have indicated the amount of investment which they have proposed to undertake in transport and communications. Output and investment in mining have

also been generally specified though with more exceptions than in the case of other industrial branches.

While almost all plans have contained targets for the output of manufacturing industry as a whole, in a number of plans these targets have not been

expressed in any greater detail. Fewer countries have indicated targets for the major branches of manufacturing industry, and, of the countries listed in table 3-9, more than one-third have not detailed any targets at all for specific commodities and only about

Table 3-9. Synopsis of Content of Plans for Industry

Country	Targets for manufacturing					Targets for basic facilities and mining ^a	
	Total Output	Total Investment	Industrial branches Out- put	Industrial branches In- vest- ment	Output targets for more or less than 25 commodities ^b	Output	Investment
China (Taiwan)	Yes	Yes	Yes	Yes	More	P T M	P T M
Colombia	Yes	Yes	Yes	Yes	More	P T	P T M
Ethiopia	Yes	Yes	Yes	Yes	More	P T M	P T M
Tunisia	Yes	Yes	Yes	Yes	More	P T M	P T M
Chile	Yes	Yes	Yes	Yes	...	M	P T M
India	Yes	Yes	Yes	No	More	P	P T M
Morocco	Yes	Yes	Yes	Yes	Less	P T M	P T M
Republic of Korea	Yes	Yes	Yes	Yes	...	P M	P T M
United Arab Republic	Yes	Yes	Yes	Yes	...	P T M	P T
Venezuela	Yes	Yes	Yes	Yes	...	P T M	P T M
Bolivia	Yes	Yes	Yes	Yes	Less	P T M	P T M
Ceylon	Yes	Yes	No	No	More	P T	P T
Ecuador	Yes	Yes	Yes	No	...	P M	P T M
Philippines	Yes	Yes	No	Yes	Less	P	P T M
Senegal	Yes	Yes	Yes	No	Less	P T M	P T M
Trinidad and Tobago	Yes	Yes	No	No	More	P T M	P T M
Burma	Yes	No	Yes	No	Less	No	P T
Ghana	Yes	Yes	No	No	Less	M	P T M
Jamaica	Yes	No	Yes	No	Less	P T M	No
Mali	Yes	No	Yes	No	Less	P	No
Pakistan	Yes	Yes	No	No	Less	T M	P T M
Sudan	Yes	Yes	No	No	Less	P T M	P T M
Tanzania	Yes	Yes	No	No	Less	P T M	P T M
Malaysia	Yes	No	No	No	Less	No	No
Jordan	Yes	No	No	No	Less	No	P T M
Kenya	Yes	No	No	No	Less	P T M	No
Iran	No	No	No	No	Less	P	P T M
Nigeria	No	No	No	No	Less	No	No

Source: See table 2-1.

^a P: Power

T: Transport and communications

M: Mining

In Jordan, Malaysia, the Philippines and the

United Arab Republic, some targets for investment and output relating to basic facilities or mining are included with those relating to manufacturing.

^b "Less" in some cases may mean nil.

one-fourth have stipulated targets for more than twenty-five individual products. In this regard, one of the most detailed plans is that of India where the planned increases in output of more than one hundred products have been indicated.

The amount of detail in plans has, in considerable measure, been related to the role assumed by the public sector in manufacturing production. In most countries, the development of manufacturing industry has been regarded as largely a matter for private initiative. The targets set for the output of manufacturing industry as a whole have been based on views about the amount of private investment that

might be undertaken and on some assumption concerning the capital-output ratio. It has often not been deemed worth while to break these targets down into greater detail since the decision to initiate or expand specific industries has rested in private hands. This has not necessarily meant that governments have been uninterested in the particular kinds of industries that would be established or expanded within the plan period. Plans have often indicated that governmental policies affecting private investment, such as fiscal measures, tariffs or import controls, would be exercised to give preference to industries which would yield relatively large benefits in terms of for-

eign exchange saving, the expansion of employment opportunities or some other criterion. But, in order to guide these policies, it has not been considered necessary to elaborate specific targets; each new industry is to be considered on its merits as and when its initiation is proposed by private investors.

A number of countries, however, have established targets for the different branches of manufacturing production even though they have also assumed that action to realize these targets would depend on private investors. In certain of these countries, such as Jamaica and Tunisia, such targets have been set with the aid of input-output tables.

Based on targets for consumer expenditure, on information about the income elasticity of demand for the various classes of manufactures, and on knowledge of the input requirements of using industries, estimates have been made of the requirements for final and intermediate goods by the main branches of manufacturing production. Allowing for the scope for import substitution and for actual possibilities of increased domestic output, targets have been reached for the main branches of manufacturing production. Since, however, these targets have been expressed for groups of products, they have not, by themselves, provided direct guidance to private investors in determining whether to enter into the production of specific commodities, and the main use of these exercises has been to assess whether the targets for output and imports of the main sectors and branches of production are internally consistent.

Only among some of the countries indicating targets for branches of manufacturing production have targets for specific commodities been spelled out in any significant number. In one or two countries at an early stage of industrialization, such as Ethiopia and Trinidad and Tobago, these targets have related mainly to final consumer goods or other light manufactures. The purpose in specifying targets has been partly to suggest to private investors where promising fields of investment appeared to lie and partly, at the same time, to point out the kinds of new industries towards which governmental policies would be most favourably disposed. In Trinidad and Tobago, for example, schedules of "pioneer" industries have been drawn up as guides to private investors of the kinds of industries which, in the view of the Government, appear to be most promising and suitable at the current stage of development.

In the main, however, where targets for specific commodities have been proposed, these targets have referred not to final consumer goods but to producer goods whose increased output is considered of particular importance for the economy. Typical products have been cement, fertilizers, iron, steel and, in the industrially more advanced countries, the various

classes of machinery and transport equipment. Such targets have usually been given in countries where it has been the intention of the government, either by itself or in combination with private investors, to undertake the necessary investment. The targets for these intermediate goods have generally been estimated directly from the expected increases in requirements of using industries and from the scope for import substitution; where a number of using industries have been involved, the targets have been built up through completion of commodity balances.

PLANNED AND PAST RATES OF GROWTH IN MANUFACTURING INDUSTRY

There has been a wide range of variation among countries in the rates of growth planned for manufacturing industry. In a few countries, most notably Chile, Kenya and Malaysia, the planned rates of growth have been modest, but in a considerable number of countries, high rates of increase exceeding 12 per cent *per annum* have been proposed (see table 3-10).

Table 3-10. Planned and Past Annual Rates of Growth in Manufacturing Output^a
(Percentage)

Country	Annual rate		Approximate difference
	Planned	Past	
Sudan	21	...	...
Tanzania	14.5	5.8	8.5
Ethiopia	13.5	5.5	8
United Arab Republic ..	13.5	12.5	1
Venezuela	13.5	9.8	3.5
China (Taiwan)	12.5	...	...
Jordan	12.5	...	...
Ceylon	12	...	...
Republic of Korea ..	11.5	16.2	-4.5
India	11	7.0	4
Philippines	10	9.9	—
Morocco	9	2.7	6
Bolivia	8.5	-4.7	13
Colombia	8.5	6.4	2
Ecuador	8.5	4.6	4
Pakistan	8.5	7.1	1.5
Tunisia	8	4.6	3.5
Jamaica	7.5	9.3	-2
Trinidad and Tobago ..	7.5	...	...
Chile	6.5	2.4	4
Malaysia	6.5	...	...
Kenya	5.5	...	...

Source: See table 2-3.

^a For Jordan, including mining and power; for Malaysia and the Philippines, including mining. For other details, see foot-note *a* to table 2-1 and foot-note *a* to table 2-3.

For practically all countries, the planned rates of growth represent a substantial acceleration over the pace of expansion actually attained in the past. Only a few countries have achieved rates of increase

equalling or exceeding 10 per cent *per annum* in past years and, most commonly, the actual growth rate has lain within the range of 5 to 7 per cent. Jamaica and the Republic of Korea are the only instances in which the planned rate of growth falls below the rate recorded in the recent past. In Jamaica this has reflected the planned deceleration in over-all growth which, as mentioned earlier, has been expected to follow from less favourable trends in the export trade. In the Republic of Korea, the planned rate of growth—though still relatively high—has been expected to decline, partly as a consequence of the greater emphasis given to the development of capital-intensive heavy industry in the current plan period and partly because the past rate reflected reconstruction activities.

For certain of the countries planning the highest rates of increase in manufacturing output, namely, Ethiopia, the Sudan and the United Republic of Tanzania, the very small size of the manufacturing sector is undoubtedly important in explaining the rapid increases in output which are expected. A given volume of new investment in these countries will yield a larger percentage increase in output than in other countries where the initial size of the manufacturing sector is substantially greater. There have, in fact, tended to be much smaller differences among countries in the proportion of total investment allocated to manufacturing industry than there are in the relative size of this sector (see table 3-11). The planned share of manufacturing industry in total investment, for example, has been about as high in

Table 3-11. Planned Investment Growth in Output and Marginal Capital-output Ratio in Manufacturing^a

Country	Share of manufacturing in			
	Gross domestic product in base year of plan	Total planned investment	Planned increase in gross domestic product	Planned marginal capital-output ratio in manufacturing
	(percentage)			
Chile	27	21	33	1.8
China (Taiwan)	21	25	35	3.8
Philippines	19	33	38	...
India	17	25	...	...
United Arab Republic	17	24	39	1.6
Venezuela	16	19	30	1.7
Colombia	14	17	22	2.6
Ecuador	14	19	21	...
Malaysia	14	...	24	...
Jamaica	13	...	19	...
Morocco	13	23	...	...
Pakistan	13	22	27	...
Republic of Korea	13	28	29	3.1
Trinidad and Tobago	13	13	21	3.3
Bolivia	11	12	15	...
Jordan	11	14	21	2.6
Kenya	9	...	10	...
Ceylon	8	20	20	3.1
Ethiopia	5	20	20	3.3
Tanzania	4	21	12	2.2
Sudan	2	16	15	2.2
Ghana .....	...	24	34	...

Source: See table 2-1.

^a In general, investment refers to gross fixed investment. For Bolivia, Ghana, India, Morocco and the Sudan, data are for net investment. For India, share of manufacturing in base year of plan includes construction and electricity, gas

and water. For Pakistan and Tanzania, investment in manufacturing includes construction. For Ghana, manufacturing output includes construction; for Malaysia and the Republic of Korea, it includes mining; for Jordan, it includes mining and power. For other details, see foot-note ^a to table 2-1.

Ceylon and Ethiopia as it has been in Chile, although the former two countries are among the least industrialized of the countries listed in table 3-11 while the latter is among the most industrialized. It is for this reason that the contribution of manufacturing industry to the increase in total output has also

tended to differ less among countries than might have been expected from the differences in the initial size of the manufacturing sector. There has been some tendency, in other words, for the least industrialized countries to plan for a relatively greater expansion in the manufacturing sector.

Other factors, however, have certainly also contributed to the relatively high rates planned in some countries and to the lower rates planned in others. Clearly, the volume of investment planned to be undertaken in manufacturing industry has been a primary reason for these differences. But circumstances affecting the relation between investment and output have also been of importance.

In some part, relatively high rates may reflect the expectation that existing industrial capacity could be more fully utilized. The plan of Venezuela, for example, noted that considerable excess capacity existed in the period immediately preceding the inception of the plan, and its fuller utilization has been expected to contribute to the expansion of output. Some other plans also observed that shortages in supplies of imported materials had periodically led to under-utilization of capacity and that greater efforts would be made to maintain a more even flow of imports in order to obviate this problem. The plan of India also stressed the importance of the proper phasing of projects so that completed projects would not be idle because others, planned to provide their inputs, were still under construction.

A high planned rate of growth in total output may also partly reflect the expectation that a number of major projects initiated and largely constructed before the first year of the plan would enter into production during the plan period; in India, for example, the three new steel mills whose construction absorbed a substantial proportion of total investment during the second plan were expected to enter into operation in the course of the current plan period. Finally, a high planned rate in output may reflect the knowledge that the kinds of investment to be undertaken during the plan period would yield relatively large increases in output per unit of capital.

Taken together, such factors become apparent in the marginal capital-output ratio implied by the targets for investment and output. Information about the marginal capital-output ratio is available only for certain countries but it is of some significance that in such countries as Venezuela and the United Arab Republic, which have planned for high rates of growth in output, the ratio is very low. This suggests that, in addition to the volume of investment, the other factors just mentioned have been important in contributing to the high rate of growth in output which has been assumed.

PLANNED STRUCTURAL CHANGES IN MANUFACTURING INDUSTRY

By no means all countries, as mentioned earlier, have sought to spell out the structural changes in manufacturing industry to be realized over the plan period. A number of countries have confined their

comment in this regard to the enunciation of certain criteria which would guide governments in the application of measures affecting the choice of projects; these criteria, as discussed later, have most frequently emphasized foreign exchange earning or saving as a basis for project selection. But within the limits set by such criteria, it has been assumed in these countries that the structural changes in manufacturing industry over the plan period would be determined by market forces. In a number of other countries, however, the plans have attempted to make explicit the structural changes expected to be realized over the plan period; and the analysis contained in this section necessarily concentrates on these countries.

The planned changes in the broad composition of manufacturing output have been shaped, first, by the stage of industrial development so far attained and, secondly, by the extent to which government policy has emphasized the rapid development of heavy industry as a necessary condition of accelerated future growth. It should be recognized, however, that these two factors have been, to some extent, interdependent. In countries at an early stage of industrialization, the development of heavy industry—even if stated explicitly to be a long-term objective—has not been emphasized in current plans. In the plans of both Ethiopia and Ghana, for example, the establishment of a heavy industry has been formulated as a long-term aim, and it has been proposed that this should be given priority in later plans; while some initial steps, such as the preparatory work for establishment of a steel mill, have been envisaged in the current plans, the main emphasis has been placed on the development of consumer goods industries in order to lessen the heavy dependence on imported supplies. At this stage of industrialization, it clearly represents a more efficient use of resources to expand import-substituting consumer goods industries, thereby releasing foreign exchange for the financing of imported capital goods, than to develop capital goods industries while remaining dependent on imported consumer goods. Thus, the influence of governmental views regarding the development of heavy industry becomes apparent, as will be seen below, only when the planned structural changes in semi-industrialized countries are contrasted.

Some partial evidence of the planned changes in the structure of manufacturing production is provided by the data shown in table 3-12 on the relative rates of growth in output of the light consumer goods industries and of manufacturing industry as a whole. The difference between these two rates of growth reflects the relative emphasis placed on the expansion of industries other than light consumer goods. It will be seen that this relative emphasis has varied substantially among countries, the difference being greatest in China (Taiwan) and the United Arab Republic. The difference has been much less marked in some

Table 3-12. Planned Annual Rates of Growth in Output of Total Manufacturing Industry and of Light Consumer Goods Industries
(Percentage)

Country	Annual rate		Approximate difference
	Total	Light consumer goods	
United Arab Republic	13.5	7.5	6
China (Taiwan)	12.5	8.5	4
Colombia	8.5	6	2.5
Republic of Korea	11.5	9.5	2.5
Venezuela	13.5	11	2.5
Chile	6.5	4.5	2
Ecuador	8.5	6.5	2
Bolivia	8.5	7.5	1
Tunisia	8	7	1

Source: See table 2-1.

^a Light consumer goods industries include food, textiles, clothing and foot-wear. Countries are listed in descending order of approximate difference between planned rates of growth in output of total manufacturing industry and light consumer goods industries. For other details, see foot-note ^a to table 2-1.

of the less industrialized countries, such as Bolivia and Tunisia, and this has probably reflected their stage of industrialization. But it is evident that it is not the stage of industrialization alone which accounts for the contrasts among countries. Chile, for example, is certainly not less industrially advanced than China (Taiwan) and the United Arab Republic.

However, the difference in growth rates between total manufacturing industry and light consumer goods industries does not necessarily reflect solely the relative emphasis placed on capital goods industries, though this can be a principal reason. In discussions of the development of heavy industry, this is usually understood to be roughly synonymous with the growth of a broadly based capital goods industry capable of providing much of the machinery and other capital equipment required for productive activity. But there are many classes of industry apart from the light consumer goods industries whose development, while necessary, does not signify the first stage in the growth of a capital goods industry. In fact, as has been pointed out in an earlier *World Economic Survey*,⁴ industrial growth in developing countries, even at the earliest stages, consists not only in the development of light consumer goods industries but also in the growth of certain producer goods industries for whose output there is a substantial demand and which do not depend heavily on inputs from other manufacturing industries. Typical examples are cement, nitrogenous fertilizers and steel. As may be seen from table 3-13, a number of countries at quite different stages of industrialization

have actually planned relatively high rates of growth in output of these products or have proposed the establishment of such industries within their current plan periods.

Thus, the differences among countries in the relative rates of growth in output planned for total manufacturing industry and for the light consumer goods industries are undoubtedly influenced by the relative emphasis placed on such producer goods industries as cement, fertilizers and steel. Indeed, for some of the less industrialized countries, the difference in relative growth in total output and output of light consumer goods probably arises very largely from the increases planned for these intermediate goods industries.

Table 3-13. Planned Annual Rates of Growth in Output of Specific Industrial Commodities^a

(Percentage)

Country	Steel	Cement	Fertilizers
Burma . . . . .	...	32	...
Ceylon . . . . .	...	26	To start
China (Taiwan)	13	17	33
Colombia	16	7	56
Ethiopia	To start	8	...
India	22	9	51
Iran	To start	...	...
Pakistan . . . . .	...	23	52
Republic of Korea	10	21	To start
Sudan . . . . .	...	9	To start
Tanzania	To start	...	To start
Trinidad and Tobago	To start	5	21
Tunisia	8	5	20

Source: See table 2-1.

^a See foot-note ^a to table 2-1.

A more direct indication of the relative emphasis placed on the development of a broadly based capital goods industry can be obtained from the targets set for the output of the basic metal industry, the metal products industry and the chemical industry. These form three of the four main components of a capital goods industry. The fourth is the machinery and transport equipment industry, but plans generally do not indicate targets for this industry separately from metal products. However, if the growth rates planned for the first three industries are considered together, some impression can undoubtedly be formed of the relative emphasis placed on the creation of a capital goods industry.

On the basis of these targets, countries fall into two groups, as shown in table 3-14. In China (Taiwan), India, the Republic of Korea, the United Arab Republic and Venezuela, the rates of growth planned for these industries have been high in comparison with the rates of increase in total manu-

⁴ See United Nations, *World Economic Survey, 1961* (Sales No.: 62.II.C.1), chapter 1.

facturing output. By contrast, in the other countries shown in the table, although the data are less complete, rates of growth have differed much less sharply from the over-all rates of increase in manufacturing output. Of course, the output of these industries need by no means be confined to the production of capital goods or of intermediate products for capital goods. Durable and other consumer goods may also be produced by these industries and high planned rates of growth therefore do not unquestionably signify an emphasis on capital goods production.

Table 3-14. Planned Annual Rates of Growth in Output of Total Manufacturing Industry and of Branches of Heavy Industry^a
(Percentage)

Country	Total manufacturing industry	Branches of heavy industry		
		Basic metals	Metal products	Chemicals
Ethiopia	13.5	...	106	
United Arab Republic	13.5	46	19	22
Venezuela	13.5	55	26	13
China (Taiwan)	12.5	20	41	19
Republic of Korea ..	11.5	18	20	15
India	11	...	19	20
Colombia	8.5	14	14	11
Ecuador	8.5	...	15	...
Tunisia	8	...	7	13
Jamaica	7.5	...	6	...
Chile	6.5	8	9	8

Source: See table 2-1.

^a Metal products include electrical and other machinery and transport equipment. Chemicals include petroleum products and rubber. For other details, see foot-note *a* to table 2-1.

PLANNED AND PAST RATES OF GROWTH IN OTHER INDUSTRIAL BRANCHES

The planned and past rates of growth in the other major branches of industrial production—namely, power, transport and communications, construction and mining—are shown in tables 3-15 and 3-16. As has been mentioned earlier, the increases in output planned for the power, transport and communications and construction industries have been, in large measure, dependent upon the increases planned in other economic activities; and in those countries where mining is an important sector, targets have been related to foreign trade plans as described more fully in the next chapter.

The rates of increase planned for output of the power industry have, in general, been quite closely related to the planned rates of growth for manufacturing industry. Thus, the highest targets for power output have been set in such countries as Ethiopia, Ceylon, China (Taiwan), the Sudan and Venezuela where high rates of growth in manufacturing production have also been planned; and the

Table 3-15. Planned and Past Annual Rates of Growth in Output of Basic Facilities^a
(Percentage)

Country	Power		Transport and communications	
	Planned	Past	Planned	Past
Ethiopia	19.5	11.3	6.5	9.4
Venezuela	18	18.5	8	3.6
Ceylon	17.5	...	5.5	...
China (Taiwan)	14	...	8	...
Sudan	13.5	...	4.5 ^b	...
Tanzania	12.5	18.3	8	6.2
United Arab Republic	11.5	1.3	3.8	...
Jamaica	10	11.2	5.5	7.8
Kenya	8.5	...	6.5	...
Trinidad and Tobago..	8.5	...	5	...
Ecuador	7.5	9.5	...	2.2
Morocco	7	3.1	5.5	...
Bolivia	6.5	...	5.5	4.0
Tunisia	4.5	5.3	1.5	3.1
Malaysia	c	c	4.5 ^d	5.8 ^d
Jordan .....	...	...	3	...
Pakistan .....	...	6.3	4	3.8

Source: See table 2-3.

^a See foot-note *a* to table 2-1 and foot-note *a* to table 2-3.

^b Including commerce.

^c Included with transport.

^d Transport and utilities.

Table 3-16. Planned and Past Annual Rates of Growth in Output of Construction and of Mining Industries
(Percentage)

Country	Construction		Mining	
	Planned	Past	Planned	Past
Bolivia	17	9.6	8.5	-3.5
Venezuela	15	3.3	4.5	8.4
Ceylon	13	...	...	...
Malaysia	12.5	...	...	...
Tanzania	12.5	1.7	4	8.2
Ecuador	12	10.6	7	6.0
Tunisia	12	-4.2	2	0.9
Ethiopia	10	13.0	52.5	7.0
Philippines	9.5	5.3	...	...
Jordan	9	...	...	...
Chile	7	1.3	6	1.0
Morocco	7	-11.2	4.5	5.5
Sudan	6	...	25	...
Jamaica	5	13.2	2	23.6
Kenya	5	...	3	...
Trinidad and Tobago..	5	...	3	...
United Arab Republic..	-0.5	9.5	27.5	22.3

Source: See table 2-3.

^a See foot-note *a* to table 2-1 and foot-note *a* to table 2-3.

lowest targets are to be found in such countries as Ecuador, Morocco, Trinidad and Tobago and Tunisia where the planned expansion in manufacturing industry has been relatively modest. Of course, the

correspondence has not been exact since power is also utilized by other sectors of production as well as by households. In a similar way, the expected rates of growth in output of the transport and communications industry have been roughly related to the planned increases in general economic activity and to commodity production in particular; indeed, the estimates of the growth in output of this industry have probably more often been reached by reference to the planned increase in over-all activity than by direct estimation of the possible increases in the volume of activity within industry. Again, the increases in output of the construction industry have depended directly on the growth in construction activity envisaged in investment plans; thus, the increases have reflected both the planned rates of growth in total investment and planned changes in its composition as between machinery and equipment on the one hand and construction on the other.

POLICIES FOR THE IMPLEMENTATION OF INDUSTRIAL PLANS

Public investment policies

Almost all governments have assumed primary, if not sole, responsibility for the implementation of plans relating to basic facilities. As has been seen in the preceding chapter, public investment has usually accounted for the main part, and not infrequently for the whole, of total investment in basic facilities. In manufacturing industry, however, governments have differed considerably in the positions which they have taken regarding the role of the public sector.

Some countries have stated that the direct role of the public sector in manufacturing industry would be very limited. In the plans of Kenya and Malaysia, for example, it has been indicated that it would be the policy of the Government to rely on private initiative for the development of manufacturing industry; the role of the public sector would be confined to the provision of basic facilities and other services needed for manufacturing production. In the plan of Kenya, it was noted in support of this position that the resources of the Government available for development expenditure were, in any case, limited.

In a larger number of countries, a more pragmatic position has been taken. While a preference has been expressed for private ownership and control of manufacturing industry, this has not precluded proposals to undertake direct public investment in order to supplement private initiative. The plan of Iran, for example, stated that public investment would be undertaken only after it had been established that private investment would not be forthcoming; it was foreseen that such public investment would take

place in large-scale industry. The plan of Pakistan also indicated that public investment would be confined to activities in which sufficient private investment was not undertaken as well as to certain other activities of strategic importance. Similarly, in China (Taiwan), although it was considered that new industries should, in principle, be privately operated, the plan noted that government initiative still had to be exercised in the area of basic industries since these are large-scale in operation and involve high business risks. Again, the Venezuelan plan indicated that public investment would be limited to projects which, by virtue of their magnitude or risks, were not sufficiently attractive to the private sector or which, in view of their importance were considered to be more appropriately undertaken by the Government. In practice, this has meant that public investment would take place in the metallurgical and petrochemical industries; even here, however, it has been envisaged that public participation would be limited to the basic stage of production, leaving the initiation of later stages of production, if possible, to the private sector.

In certain other countries, a more positive and continuing role has been formally assigned to the public sector. In India, for example, according to its Industrial Policy Resolution of 1956, which forms the basis of industrial planning, the future development of specified industrial activities considered of strategic importance to the economy was designated as the exclusive responsibility of the State. For certain other activities also specified by the Resolution, the possible co-operation of the private sector was envisaged; all other unspecified industrial activities were considered to be the province of private investment. In the current plan, public investment has been concentrated on heavy industries; it has been expected, however, that private investment would play a larger role in certain of these industries, such as fertilizers.

It is clear that the role envisaged for public investment in manufacturing industry has usually been closely linked to the development of heavy industry. Where the rapid growth of heavy industry has been planned, a more active role has usually been assigned to the public sector. Public investment, in other words, has usually been concentrated in heavy industry, and where considerable emphasis has been given to the development of heavy industry, the share of the public sector in total manufacturing industry has accordingly tended to be relatively high. In India, for example, 70 per cent of total public investment in manufacturing industry has been planned to be absorbed by the chemical and metal industries alone; in the Republic of Korea, the share is 60 per cent and in Pakistan, 54 per cent. And in these three countries the planned participation

of the public sector in manufacturing industry has been relatively large.

There have been certain exceptions to this general feature of public investment. In the Sudan, for example, some 96 per cent of public investment in manufacturing industry has been destined for absorption by light consumer goods industries. But, in the main, the role assigned to the public sector has centred around heavy industry. It has been considered in a number of countries that heavy industry is strategic to the growth of the economy, and public action has been deemed necessary to ensure its establishment and expansion. The investing habits of the public in many developing countries have favoured projects whose returns are fairly certain and quickly realized; but in heavy industry, because its capital intensity is high and the gestation period long, the requisite investment is large and returns are slow to materialize.

Criteria for project selection

Besides these general considerations relating to the role of the public sector in industrial investment, many plans have enumerated more detailed criteria intended to guide public policy in the selection of specific projects. Most plans have attached primary importance to the likely effect of new projects on foreign exchange earning or saving; preference has usually been given to export-promoting or import-replacing projects. The extent to which the manufacturing activities of new projects are intended to consist of the processing of indigenous materials has also been an important criterion in a number of plans. In order to economize on the use of scarce capital, most plans have also indicated a preference for projects and production methods which are labour intensive and have quick gestation periods. For reasons explored in the following section, however, it is doubtful whether these latter criteria have assumed much operational significance in the field of manufacturing industry. A number of plans have, in fact, stated that these criteria should be set aside when other considerations appear more important.

In certain plans as, for example, that of Venezuela, it has also been suggested that accounting or shadow prices should be used in project evaluation in the public as well as the private sector. The purpose in proposing the use of these notional prices has been to make corrections for the deficiencies inherent in market prices which arise from market imperfections and from the fact that market prices do not reflect external economies. Some use has been made of accounting prices in the Philippines. And in Pakistan, in the course of the first plan, before the devaluation, a shadow foreign exchange rate was used. However, there is no evidence of widespread use of such prices.

Measures to influence the private sector

Since, in most of the countries whose plans are reviewed here, manufacturing industry lies largely within the private sector, the main instrument for the implementation of plans in this sector consists in governmental measures to stimulate private investment and output. Yet in most plans, although their importance is recognized, such measures are discussed only briefly and usually in rather general terms. In part, this has been because the specific nature of the measures to be implemented has necessarily been left to later decision by the legislative and executive authorities. But, in large part, it is also because no radically new policies have been proposed; the measures envisaged have represented a continuation or elaboration of policies already being pursued.

Regarding the actual measures proposed in plans, fiscal incentives for investment in manufacturing industry have been widely suggested. Thus, several plans—including those of Ethiopia and Iran—have pointed to tax holidays and the exemption of reinvested profits from full taxation as means of stimulating investment. Accelerated depreciation allowances, which lessen the risk of investment and provide capital at comparatively low cost, have also been mentioned as, for example, in the plan of Trinidad and Tobago. But perhaps the most frequently mentioned device of fiscal policy are tariffs in their role as a protective measure against import competition. Plans have also commonly suggested relief from duties on imports of machinery and materials required by new industries which are considered desirable.

Import controls have often served the same purpose as tariffs in stimulating domestic investment. In some countries as, for example, India, these have been employed in conjunction with other licensing measures to allocate scarce capital equipment and other materials in accordance with the priorities laid down in the plan. In the plan of Pakistan, by contrast, it was suggested that the licensing of resources for investment be confined to foreign exchange and that, aside from this condition, resource allocation be allowed to respond to market forces.

Plans have generally recognized a need to strengthen institutions for the provision of credit and equity capital to industry. Governments have proposed to sponsor the establishment of, or to enlarge, such financial institutions, and development programmes have frequently allotted funds to these institutions in order that they might initiate or enlarge their lending activity. Such institutions, moreover, have often been empowered to borrow from central banks or to negotiate loans from foreign lending institutions. Indeed, these institutions have been assigned the major task of ensuring that the

implementation of private investment decisions would not be frustrated by the lack of resources in the private sector. Particular emphasis has been laid in some countries, such as Chile, Ethiopia and Pakistan, on the intermediary role of such institutions in developing a domestic market in industrial equities. It has been envisaged that these institutions would promote industries by investing in industrial equities but that, as soon as the industries had become viable, they would seek to sell these equities to the public. In this way, it has been hoped to mobilize more funds for industrial investment and to accustom the public to holding a presently unfamiliar class of asset.

A large number of plans have also mentioned the creation of industrial estates. These estates typically provide overhead facilities, including power and water, are located advantageously from the point of view of transport, and provide vocational training as well as repair and other overhead facilities which individual manufacturers would be unable to provide and maintain but which, when used by many, become economical. Thus, the current Indian plan has proposed the establishment of 300 such estates, located near small and medium-sized towns and in selected rural areas where power, water supply and other essential facilities can readily be provided. The construction, rental and eventual sale of factory and other buildings on such estates are also a feature of some plans, such as those of Trinidad and Tobago and Venezuela. Since land and buildings represent a large proportion, if not the major part, of the fixed investment required in many projects, the availability of buildings and land on a rental basis substantially lessens the investment, and consequently the risk, which manufacturers have to undertake in establishing a new project.

Plans have also referred to a number of other measures designed to stimulate private industrial investment. The plan of Jordan, for example, has stressed the importance of legislation to define the legal rights and obligations associated with ownership, including the extent of liability of partners and shareholders, protection to patents and provisions under which they are licensed. A number of plans have pointed to the importance of setting and enforcing quality standards for manufactured goods to be sold abroad as well as domestically. In view of the prestige of imported manufactures and the mis-

trust for locally produced goods in many developing countries, such quality standards and their enforcement might also be viewed as an import-substituting device. Further, references to the importance of research and the spreading of information on production and marketing methods and prospects at home and abroad have been quite common. The plans of Colombia and of Venezuela have emphasized the importance of research, teaching and other informational activities. Noting the significance of technical assistance, or "extension" type of activities by public and private institutions, they have suggested the expansion of these activities. The plan of Ethiopia has attached considerable importance to an industrial promotion service as well as to a technical agency intended to identify possible projects and to help private industry in planning their implementation.

Such activities need not be designed merely to assist larger-scale or medium-sized industry. Indeed, some plans have given considerable weight to measures designed to improve the skills, output and sales of craftsmen and small-scale manufacturers. In Jordan, a Small Crafts Service Institute has been proposed to help craftsmen. In India, where some protection has been given to village industry from the competition of foreign and domestic large-scale industry in order to lessen its effects on income distribution and employment, the current plan has contemplated that more emphasis be given to increasing the efficiency of village and craft industries so as to improve their competitive ability. Besides giving loans, subsidies, training facilities and technical and marketing advice to artisans, the Government has proposed that they should be organized along co-operative lines.

In conclusion, it may be said that, while the measures proposed to stimulate private investment and output have been widely employed in the past, it has generally been intended to apply them more extensively and vigorously. However, the expectation that there would be an acceleration in industrial growth has generally been founded less on the expected influence of new policies intended specifically to stimulate industrial investment than on the assumption that the more favourable conditions of over-all growth envisaged in the plan would evoke higher levels of private investment and output.

Manpower targets and policies

In manpower planning, developing countries are confronted simultaneously with excess supplies of unskilled labour and widespread shortages of trained manpower. They have therefore had to undertake the twofold task of enlarging employment opportu-

nities and of increasing the supply of trained manpower. The targets and policies of plans in relation to these two aspects of manpower are described separately below.

PLANS FOR EMPLOYMENT

Not all plans have contained explicit targets and policies regarding employment. Of all the countries reviewed in this chapter, some two-thirds estimated the possible increase in the labour force over the plan period. But only about half of the countries have specified targets for increases in non-agricultural employment. The main basis for these estimates has been the planned increases in output of the industrial sector or the planned increases in investment within the sector. In the Indian plan, for example, the estimates of the additional employment to be generated by some industries were derived from the planned increases in output, allowance being made for the expected increases in productivity; for other industries, employment coefficients were applied to the additional investment expected to be undertaken. Clearly, the degree to which it has been possible to make accurate estimates of the additional employment likely to be generated by production plans has depended largely on the amount of detail in these plans; and, as has been pointed out earlier, the plans of many countries have not contained much detail. It should also be noted that, in some plans, employment targets have been set not only by reference to planned changes in production and investment but also in relation to social objectives; it has been assumed that the employment target would, if necessary, be realized partly through the initiation of special employment-creating projects.

Among the countries for which estimates have been made, the expected annual rate of increase in the labour force over the current plan period has generally been in the region of 2 to 3 per cent. The rate of increase in the labour force has usually been roughly in line with the expected rate of growth in total population though, primarily because of changes in the age distribution of the population, there have sometimes been differences between the two rates (*see table 3-17*).

Most countries have assumed that the rate of increase in non-agricultural employment would substantially exceed the rate of increase in labour force. The greatest rate of increase has been planned in the Philippines where, it will be recalled, the emphasis in production and investment plans has been on the industrial sector. Relatively high rates of increase have also been assumed in Ceylon, Colombia and Ghana. In contrast to most other countries, however, the rates of growth in non-agricultural employment projected in Burma and in Trinidad and Tobago have differed little from the expected rates of increase in total labour force (*see table 3-18*).

Despite the higher rate of increase in non-agricultural employment than in total labour force, the expected increase in the number of persons join-

Table 3-17. Planned Annual Rates of Increase in Population and Labour Force

(Percentage)

Country	Annual rate	
	Population	Labour force*
<i>Africa</i>		
Ethiopia	1.7	...
Ghana	2.6	2.8
Kenya	3.0	...
Morocco	2.0	2.8
Nigeria	2.0-2.5	...
Sudan	2.8	3.2
Tanzania	2.1	...
Tunisia	1.6	2.6
United Arab Republic	2.2	2.2
<i>Asia</i>		
Burma	2.3	2.8
Ceylon	3.0	3.4
China (Taiwan)	3.1	3.0
India	2.3	1.8
Iran	2.4	...
Malaysia	3.3	3.0
Pakistan	2.0	1.8
Philippines	3.3	3.2
Republic of Korea	2.8	2.3
<i>Central and South America</i>		
Bolivia	2.5	3.1
Chile	2.5	...
Colombia	2.8	3.8
Ecuador	3.1	...
Jamaica	2.0	2.0
Trinidad and Tobago	2.9	2.7
Venezuela	3.0	3.2

Source: See table 2-1.

* For Burma, China (Taiwan) and Colombia, data refer to economically active population; for Malaysia, Philippines and the Sudan, they refer to employed population. For other details, see foot-note *a* to table 2-1.

ing the labour force has, in almost all countries, been greater than the planned increase in the numbers of additional jobs to be created in the non-agricultural sectors (*see table 3-19*). In other words, countries have been faced with the fact that the number of persons remaining under-employed or unemployed would continue to increase over the course of their plan periods. Of the countries for which data are available, only the Philippines appears to have been exceptional in this regard; the planned increase in the number of jobs in non-agricultural activities has exceeded the total increment in the labour force. Thus, while the plans of developing countries have usually stressed the importance of enlarging employment opportunities in the non-agricultural sectors, it has generally had to be recognized that the impact of industrialization programmes on the employment problem would be limited, at least over the course of their current plan periods. In view of the social importance of raising the level of employ-

Table 3-18. Planned Annual Rates of Increase in Labour Force and Non-agricultural Employment, and Planned Share of Non-agricultural Employment in Labour Force^a

(Percentage)

Country	Annual rate		Share of non-agricultural employment in labour force	
	Labour force	Non-agricultural employment	Base year of plan	Final year of plan
<i>Africa</i>				
Ghana	2.8	6.8	40	47
Morocco	2.8	4.9	33	36
Sudan	3.2	...	...	...
Tunisia	2.6	...	...	...
United Arab Republic	2.2	3.4	36	38
<i>Asia</i>				
Burma	2.8	2.9	38	38
Ceylon	3.4	5.9	39	50
China (Taiwan)	3.0	5.4	44	48
India	1.8	...	...	...
Malaysia	3.0	4.4	41	44
Pakistan	1.8	...	...	...
Philippines	3.2	9.0	39	51
Republic of Korea	2.3	...	...	...
<i>Central and South America</i>				
Bolivia	3.1	4.2	53	57
Colombia	3.8	5.6	53	60
Jamaica	2.0	...	...	...
Trinidad and Tobago	2.7	2.9	76	77
Venezuela	3.2	4.8	56	59

Source: See table 2-1.

^a For Bolivia, data for non-agricultural employment refer to total urban population. For other details, see foot-note ^a to table 2-1.

Table 3-19. Relation between Planned Annual Increases in Labour Force and Non-agricultural Employment^a

Country	Planned annual increase in			Increase in non-agricultural employment as percentage of increase in labour force
	Labour force	Non-agricultural employment (thousands)	Other ^b	
Philippines	306	329	-23	108
Trinidad and Tobago	8	7	2	88
Venezuela	83	70	13	84
Ghana	70	58	13	83
China (Taiwan)	100	79	21	79
Colombia	178	140	38	79
Bolivia	64	46	18	72
Morocco	135	95	40	70
Ceylon	125	86	39	69
India	3,400	2,106	1,294	62
Malaysia	68	40	28	59
United Arab Republic	166	94	72	57
Burma	253	98	155	39

Source: See table 2-1.

^a Countries are listed in descending order of increase in non-agricultural employment as

percentage of increase in labour force. For other details, see foot-note ^a to table 2-1.

^b Refers to portion of labour force which is either unemployed or engaged in agriculture.

ment, however, numerous countries have given considerable attention to possible alternative ways in which employment opportunities could be maximized. The main proposals which have been discussed in plans are described in the following paragraphs.

Choice of techniques

In many plans, stress on the enlargement of employment opportunities in the non-agricultural sector has led to a discussion of the scope for choice of labour-intensive rather than capital-intensive techniques in industrial production. Guided by the desire to increase employment, several plans have, in fact, suggested that, in the selection of industrial projects, preference should be given to those which are relatively labour intensive. The plan for the United Republic of Tanzania, for example, observed that, in so far as an economically feasible choice existed, it would be the policy of the Government to encourage the adoption of industries or methods of production which would provide the most intensive use of labour.

Other plans, however, have observed that the scope for choice of techniques within the modern industrial sector is severely circumscribed. In the modern manufacturing processes required for the production of a given product, the existence of a choice between alternative techniques which are equally efficient but which differ to a significant degree in their labour or capital intensity is more the exception than the rule. The choice between more and less labour-intensive techniques usually reduces, in practice, to a choice between products. But the primary considerations determining the pattern of domestic output are necessarily the requirements of the domestic market and the efficiency of domestic production in relation to imports; the labour or capital intensity of the techniques utilized in production of a commodity can, at best, be only a subsidiary basis for the decision to undertake its production. The current plan of India, for example, noted that many industrial processes, particularly in large-scale manufacturing, have to be based on high productivity techniques since it is essential to adopt the scale and methods of production which will yield the largest economies. Similarly, the plan of Pakistan observed that provision has had to be made for industries which are expected to become of future importance to the economy even though their immediate contribution to income and employment per unit of investment might not be large. The need to give priority to productivity over employment has been even more explicitly recognized in the plan of the United Arab Republic; it stated that "modern industries depend by their very nature more on capital equipment than on the human factor. This makes any expansion in employment due to large-

scale industrialization relatively small, and produces its effects on productivity. The increase in productivity is actually an important element in raising the average income per worker and consequently in the over-all average income of the population".⁵

Recognition of the limited impact of industrialization programmes on employment has intensified the search for employment-creating opportunities in other areas of economic activity. The Indian plan, for example, emphasized that the necessity of using capital-intensive techniques in large-scale industry should be balanced by an effort to employ techniques in other fields which would be more labour intensive and would save on capital resources. The areas which have been singled out for attention in most plans have been small-scale and cottage industries and construction activity, including rural works programmes.

Most plans have contained programmes or proposals for the enlargement of employment opportunities in these areas. Other social objectives besides additional employment, however, have been of importance in the framing of these programmes. In particular, these have often been seen as a way of checking the unduly large migration of the population from the countryside to the large urban centres. A common problem in developing countries has been the great increase in the number of urban dwellers; the steady flow of people into the cities has far outpaced their capacity to expand housing facilities, urban water supplies, public health services and other facilities. In order to stem this flow, a number of countries have emphasized the value of development projects and programmes which lend themselves to geographical dispersion.

Small-scale and cottage industries

The plans of many developing countries have proposed that steps be taken to promote the growth of small-scale and cottage industries. Besides the enlargement of employment opportunities, other advantages which have been seen to flow from the promotion of these industries include their adaptability to the small size of local markets, the possibility of mobilizing local savings which would not otherwise be productively employed, the utilization of traditional skills and the short gestation period between the initiation and entry into operation of an enterprise. The plan of Ethiopia, for example, has envisaged a useful role for small-scale industry in supplying local markets with such products as footwear, agricultural tools, household utensils and certain textile products.

⁵ United Arab Republic, National Planning Committee, *General Frame of the Five-Year Plan for Economic and Social Development* (Cairo, 1960), page 13.

In discussing measures to promote small-scale industry, the plans of most countries have not drawn any sharp distinction between small-scale factory production using modern techniques and other small-scale or cottage industry employing traditional techniques. In practice, the dividing line might often be difficult to draw. Yet it is important to realize that, from the point of view of the impact of small-scale industry on employment, the distinction is frequently significant. In many kinds of modern, small-scale factory production, the capital and labour requirements per unit of output are much the same as in large-scale production.⁶ Small-scale industry, in fact, is by no means always an alternative to large-scale production. Many small-scale industries are complementary to other industries where large-scale production prevails; they provide the latter with materials and parts necessary for their productive activity.

It is primarily the small-scale or cottage industries utilizing more traditional techniques that most countries appear to have had in mind as a means of relieving the employment problem. This, for instance, has been clearly expressed in the current plan of the Philippines; it noted that, although cottage industries had long been carried on in the Philippines, their income and employment potentials were not being fully tapped owing to weaknesses in organization, marketing, financing and product standardization. The plan observed that action needed to be taken to revive the interest in cottage industry as an initial approach to the solution of under-employment.

An important condition of survival and expansion of these small-scale industries has been realization of improvements in their competitiveness. In this connexion, the experience of India is of particular interest since it gave an important place to the development of these industries in its earlier plans. The third plan noted that "an important lesson of the past decade is that where individual small industries, including village industries, have failed to adopt improved techniques or to achieve economies of scale and organization through co-operation, production costs have remained relatively high and problems of unsold stocks and of decline in production and employment have arisen."⁷ The plan therefore proposed that positive forms of assistance be extended to small-scale and cottage industries in order to improve the productivity of the worker and reduce production costs. This problem of the uncompetitiveness of traditional small-scale industry has also been recognized in the plans of several other countries, such as Ceylon, Ghana, Nigeria and the Philippines. The plan of Ceylon, for instance, while

favouring a rapid expansion of small-scale and cottage industries in order to increase employment opportunities, emphasized at the same time that such an expansion implied a new concept of small-scale and cottage industries involving efficient methods of production.

Construction and rural works programmes

In most plans which have discussed the problem of employment, heavy reliance has been placed on the expansion of construction activity as a principal means of creating additional job opportunities. While capital-intensive means of construction are available, a strong preference has usually been expressed for the use of labour-intensive methods in this area of economic activity.

Particular emphasis has been laid in a number of plans on the organization of additional construction activities in the rural areas. Some countries have viewed these activities as public works programmes designed to provide additional employment on a temporary basis. The third plan of Iran, for example, stated that such programmes would be introduced in the event that part of the labour force was not absorbed by the planned development activities. Similarly, the plan of Trinidad and Tobago proposed special public works projects on the grounds that these provided temporary jobs for the unemployed while the slower and more capital-intensive task of creating permanent jobs took place.

In other countries, however, the approach to the creation of additional jobs in the rural areas has been derived not so much from the long-established notion of public works as from the newer concept of community development. For example, the plans of some countries, such as those of Ghana, Morocco and the United Republic of Tanzania, have envisaged that, through the initiative and voluntary labour of the local population, rural under-employed labour should be utilized to create and improve local capital assets. Governments have proposed to provide the minimum amount of technical assistance and equipment necessary to make such construction work effective and to ensure that the initial enthusiasm of the population would not be dissipated through poor organization and technical errors. Such employment schemes have not proposed that regular wages be paid and the problem has therefore arisen of finding suitable projects to which people would be willing to give their labour freely.

Quite a number of developing countries have, in fact, initiated community development programmes at one time or another, though the individual programmes have differed considerably in scope, content and methods of execution. Examples in Asia include the national programme of community development in India, the village agricultural and industrial de-

⁶ See International Labour Organisation, *Preparatory Technical Conference on Employment: Employment Objectives and Policies*, PTCE/I (1963) (Geneva), page 162.

⁷ Government of India, Planning Commission, *Third Five-Year Plan, 1961-1966* (New Delhi, 1961), page 426.

velopment programme and the basic democracies programme in Pakistan, the rural development societies in Ceylon and the *barrio* (village) community development programme in the Philippines; in Africa, the supervised co-operatives and combined centres in the United Arab Republic, the *Programme d'animation rurale* in Senegal, the community development programme in Uganda and the mass education and Workers' Brigade programmes in Ghana; in the Latin American region, the community development schemes in Mexico, Jamaica and Venezuela.⁸

In countries with some experience in the implementation of these programmes, difficulties have been encountered which current plans have sought to correct. Not the least of these has been the lack of the necessary knowledge and organizational skill at the local level. In the third plan of Iran, for example, among the shortcomings noted in the community development programme were the lack of adequate local government machinery and deficiencies in the administration of the programme. On account of such difficulties, some countries have chosen a more selective approach towards community development programmes, concentrating their energies initially on a few pilot projects in order to gain experience before broadening the programme.

Experience in some countries has also led to the virtual abandonment of reliance on free and voluntary labour. In India, for example, where community development programmes were first introduced on the assumption that such labour would be available, the new approach has called for the payment of villagers, with wages possibly being paid partly in the form of food-grains. In certain other countries, the use of compulsory labour has been seen as an alternative to the payment of wages.

EDUCATIONAL PLANS

Awareness of the need for planning to meet the requirements of a developing economy for trained manpower has been spreading rapidly in recent years. Perhaps owing to its recency, however, this has not been as widely reflected in current development plans as might have been expected. Many countries, especially in Latin America, appear to have initiated extensive research into their manpower and educational requirements only within the past three or four years.

Based on the evidence contained in plans, it is among the countries of Africa that attention has most commonly been given to manpower and educational planning. This is undoubtedly indicative of the awareness in these countries of the acute scarcities of trained manpower from which they suffer. How-

ever, the comprehensiveness of the studies undertaken has varied considerably. Certain countries, most notably Ethiopia, Ghana, Iran, Nigeria and Tunisia, have explored their requirements in some detail and have estimated their needs for a variety of different kinds of trained manpower. These estimates have not been confined to different classes of high-level manpower but have included targets for various classes of medium-level and skilled manpower. This has been in recognition of the fact that there is a need not only for high-level manpower but also for the clerical and junior technical personnel who form the supporting cadres. The plan of Ghana, for instance, estimated that for each person absorbed into a high-level occupation five supporting technicians were necessary to make his employment worth while.

While, for reasons of lack of information, the estimates of manpower requirements by type of skill have no doubt been crude, they have served as a meaningful basis for the preparation of plans for education and training. They have helped to link educational and training plans more directly to the future economic requirements of the country. In a majority of developing countries, requirements for trained manpower are on a scale which exceeds the capacity of existing educational and training institutions. Most governments, as can be seen from table 3-20, have planned to allocate a substantial propor-

**Table 3-20. Planned Share of Education and Other Services in Public Investment
(Percentage)**

Country	Services	
	Education	Total
Ghana	14	...
Tanzania	14	38 ^a
Malaysia	12	31
Republic of Korea	12	...
Senegal	12	36
Morocco	11	40
Sudan	11	32
Ethiopia	10	...
Nigeria	10	29
Iran	8	26
Jamaica	8	41
Kenya	8	...
Pakistan	8	23
India	7 ^b	10
Trinidad and Tobago	7	32
Ceylon	5	23
Venezuela	5	40

Source: See table 2-1.

^a Including outlay for government buildings.

^b Excluding engineering and technological education.

tion of public development expenditure to the expansion of educational facilities. In the absence of some impression of the future manpower require-

⁸ International Labour Organisation, op. cit., page 170.

ments of the economy, however, there is always the danger that the past pattern of educational expenditure will tend to be repeated; and, as is well known, there has often been a bias at the higher educational levels in developing countries, as well as in developed

countries, towards training in the liberal arts, law and other non-technical fields. This has not fully corresponded to the needs of the developing countries, and it has been a useful function of manpower planning to help correct this bias.

Chapter 4

PLANS FOR FOREIGN TRADE AND PAYMENTS

Because of the great importance of imports, exports and foreign capital to economic growth in the developing countries, foreign trade and payments have necessarily assumed a central role in development plans. In many of these countries, export trade accounts for a substantial part of total output, and trends in exports have accordingly exerted a considerable influence on over-all growth. Moreover, given the structural characteristics of their economies, these countries have depended very largely on foreign sources of supply to meet their requirements for specific products, such as capital equipment or raw materials, which are crucial to development. Finally, the level of domestic saving has frequently been insufficient to ensure an adequate level of investment, and an inflow of foreign capital has been counted upon to supplement domestic resources. Thus, the assumptions which have been made about foreign trade and payments have gone far to shape the character of over-all plans.

In a few countries, the crucial importance assigned to the external sector has even been reflected in the approach to plan formulation as a whole. Thus, in such countries as Colombia, Chile and the Philippines, the first step in plan formulation appears to have been to make independent estimates of foreign exchange earnings and other receipts. From these, payments on account of services and other financial commitments have been deducted, and the capacity to import has thereby been derived. This estimated import capacity has then been used as a basis for projecting the feasible rate of growth of the economy as a whole, allowance being made for import substitution and other elements of plan strategy. In other words, the rate of growth in import capacity has been singled out as the key determinant of over-all growth. In most countries, however, the approach has been to work back from the targets set for domestic economic activity to estimates of import requirements; taken together with the projections of export earnings, these have provided an estimate of the foreign exchange gap. This gap has, in the first instance, been a residual item which has later had to be considered in the light of the prospects for obtaining foreign aid or other foreign capital. In fact, whichever approach has been used, the basic problem of meeting the

balance of payments constraint and of ensuring consistency between the foreign trade sector and the over-all development plan has remained. Thus, if the implied gap has been too large relative to the likely level of capital inflow, import requirements either have had to be scaled down—by intensifying import substitution or lowering plan targets—or efforts have had to be made to raise export targets. Similarly, if the estimated import capacity has not permitted an adequate rate of growth, targets for exports and capital inflow have had to be raised, and efforts made to achieve these higher targets. Thus, in order for plans to be realistic the same requirements have had to be met in either case.

While the plans of most developing countries have indicated awareness of the central importance of the external sector, it should not be supposed that they have all elaborated comprehensive and detailed foreign trade and payments programmes. Almost all plans have set forth targets for total merchandise exports and imports, but in a number of cases these over-all targets have not been spelled out in any greater detail. As indicated in table 4-1, although a majority of countries have specified targets for at least some of their major export commodities, several have included no such specific targets in their plans. Further, with very few exceptions, targets for exports have been stated in terms of volume only, export prices being simply assumed to remain constant. On the side of merchandise imports, most countries have broken down their over-all targets into targets for major commodity groups. In a few countries, several commodity groups have been identified, but, typically, the breakdown of the over-all target has been limited to the three major groups of capital goods, consumer goods and raw materials and semi-processed goods. Some countries, however, have not indicated any targets at all for imports by commodity groups.

With regard to the service items in the balance of payments, while almost all countries have necessarily made some estimate of net receipts or payments on service account in order to form some impression of the possible magnitude of the deficit in the current account balance, not many have made separate estimates of both receipts and payments. Direct estimates

of investment income payments, for instance, have generally been limited to those countries in which the magnitude of such payments has become considerable. Similarly, many countries have not made explicit provision for amortization payments in their plans, the countries which have done so being mostly those which have previously accumulated sizable foreign debts.

Table 4-1. Synopsis of Content of Plans for Foreign Trade and Payments

Country	Target		Estimate of payments	
	Main export commodities, explicitly specified	Three or more groups of imports	Investment income	Amortization
Republic of Korea...	Yes	Yes	Yes	Yes
Tunisia	Yes	Yes	Yes	Yes
Chile	Yes ^a	Yes	Yes	Yes
United Arab Republic	Yes	Yes	Yes ^b	Yes
Pakistan	Yes	Yes	Yes ^b	Yes
Sudan	Yes	Yes	Yes ^b	Yes
Bolivia	Yes	Yes	No	Yes
Venezuela	Yes	Yes	No	Yes
Ghana	Yes	Yes	No	Yes
Ecuador	Yes	Yes	No	Yes

Country	Target		Estimate of payments	
	Main export commodities, explicitly specified	Three or more groups of imports	Investment income	Amortization
Kenya	Yes	Yes	Yes	No
Ceylon	Yes	Yes	No	No
Ethiopia	Yes	Yes	No	No
Trinidad and Tobago	Yes	Yes	No	No
India	No	Yes	No	Yes
Colombia	Yes	No	Yes	Yes
Philippines	Yes	No	No	No
Burma	Yes	No ^c	No	Yes
Nigeria	No	Yes	No	Yes
China (Taiwan)	No	No	No	Yes
Jamaica	No	No	Yes	No
Morocco	No	No	Yes	No
Malaysia	No	No	Yes	No
Iran	No	No	Yes ^b	Yes
Tanzania	No	No	No	No
Senegal	No	No	No	No
Mali	No	No	No	No

Source: See table 2-1.

^a Targets indicated by export groups.

^b Interest only.

^c Target indicated for two groups of imports.

Export targets

The establishment of targets for the export sector is a key element in the process of plan formulation. At the preliminary stages of plan formulation, some estimate of the trend in export earnings has had to be made. When compared with the import requirements implicit in domestic production and expenditure plans, the estimated trend in export earnings may have revealed a foreign exchange gap greater than could be financed by the inflow of foreign capital. In this event, domestic production and expenditure plans have had to be modified in order to reduce import requirements or to enlarge export earnings.

It is quite obvious that the estimation of future export earnings is fraught with uncertainties. Estimates depend on factors which are difficult to predict, such as demand conditions abroad and the competitive position of foreign suppliers. The problem is especially acute for developing countries since their exports are generally concentrated in a few primary commodities for which relatively small changes in demand or supply conditions can cause large swings in prices. The targets specified for export earnings in the end year of a plan, or in its intervening years, are therefore highly uncertain. Nevertheless, the importance of estimating the trend in export earnings can hardly be overstated. Without

estimates of export earnings and import requirements, current decisions with regard to the utilization of resources for development can hardly give appropriate weight to export-promoting and import-substituting activities.

The actual procedure adopted by most developing countries in projecting their export earnings has been to assume that export prices would remain constant and to concentrate attention on the establishment of targets for the volume of exports. For countries which are important suppliers of particular primary commodities, the main consideration in establishing export targets for these products has been the likely trend in world import demand. For countries which are minor suppliers of their export products, targets have been derived mainly from estimates of the possible increases in exportable supplies.

A few countries, sometimes with the aid of international agencies, have undertaken more comprehensive studies of both demand and supply preparatory to setting their export targets. In Chile, for example, a study of prospective world demand for, and supply of, copper appears to have been undertaken, estimates of future copper prices being made on the basis of these studies. Similar studies of their major

export products were utilized by Colombia, Malaysia and Nigeria in the preparation of their plans. In the latter two countries, export prices were consequently assumed to fall during the plan period. In Colombia, the plan was worked out on the basis of two alternative assumptions, namely, constant and falling coffee prices. In most countries, however, mainly by reason of lack of information, the possible increases in supplies from competing countries have been largely ignored and targets have been set in the light of expectations about trends in world demand and about domestic output.

For a considerable number of countries, planned rates of growth in exports are clearly ambitious, being appreciably higher than in the recent past (see table 4-2). Yet, there is about an equal number

Table 4-2. Planned and Past Annual Rates of Growth in Volume of Merchandise Exports^a

(Percentage)

Group and country	Annual rate		Approximate difference
	Planned	Past	
<i>Countries indicating planned rate greater than past rate</i>			
Republic of Korea.....	27	-3.1	30
Bolivia	10	-6.2	16
Ethiopia	11	2.0	9
United Arab Republic...	6.5	2.2	4.5
China (Taiwan)	11.5	7.4	4
Pakistan	4	0.9	3
Burma	7.5	5.0	2.5
Chile	6.5	4.2	2.5
Ghana	6	4.2	2
India	3.5	1.5	2
Ceylon	2.5	0.9	1.5
Morocco	5	3.6	1.5
Nigeria	5.5	4.2	1.5
<i>Countries indicating planned rate smaller than past rate</i>			
Colombia	5.5	6.3	-1
Tunisia	4	5.7	-1.5
Ecuador	5	6.9	-2
Philippines	3	5.4	-2.5
Tanzania	6.5	8.8	-2.5
Venezuela	4.5	7.3	-3
Sudan	4.5	8.7	-4
Jamaica	3.5	8.1	-4.5
Malaysia	-0.5	3.8	-4.5
Kenya	5	12.4	-7.5
Trinidad and Tobago.....	2	10.6	-8.5

Source: Bureau of General Economic Research and Policies of the United Nations Secretariat, based on Statistical Office of the United Nations, *Yearbook of International Trade Statistics* and *Yearbook of National Accounts Statistics*; United Nations, *Economic Bulletin for Latin America, Statistical Supplement*; International Monetary Fund, *International Financial Statistics* (Washington, D.C.).

^a Planned rate of growth for Colombia, Malaysia and Nigeria, whose plans assume declines in export prices, refers

of other countries for which the projected rates of growth are lower than, or do not differ materially from, past rates. Since most developing countries are dependent upon a few primary commodities for the bulk of their export earnings, it might be expected that their export projections would be fairly closely related to the expected trends in world demand for their principal export commodities. In order to test this hypothesis, the past rates of growth in world trade of the main export commodities of each country have been calculated, and these have been compared with the planned rates of growth in total exports of the same country (see table 4-3). In so far as the past rate of growth in world trade of the main export commodities reasonably approximates the expected rate, some conclusions can be drawn about the assumptions underlying the targets planned for total exports.

On the basis of this comparison, countries fall into three major groups. In the first group of countries, projected rates of growth in the volume of total exports have conformed quite closely to past rates of growth in world trade of their principal export commodities; and in so far as past trends in world trade fairly indicate prospective trends, these projected rates have appeared to be well within the bounds of possibility. For Ecuador and the Sudan, the projected rates of growth in total exports are about the same as the past trends in world trade of their principal exports and still less than the past rates of growth in their total exports. For Chile, the planned rate of growth in total exports is decidedly higher than the past rate of increase in total exports, but it is not out of line with past trends in world trade in its major export products. The target set by Chile has denoted a desire to prevent any further contraction in its share of world markets for its principal exports.

The second group consists only of three countries, namely, Jamaica, Trinidad and Tobago and Venezuela; in the plans of these countries, the projected rate of increase of total exports has been set substantially below the past trend in world trade of their major export products. All of these countries are in the special position of having production of their principal export commodities—petroleum and bauxite—in the hands of large companies with international interests. The rate of future expansion in exportable supplies has thus depended heavily on the

value of exports. For India, planned rate is estimated from annual average for plan period as a whole. As elsewhere in this report, past rate of growth generally pertains to the period between 1953-1954 and 1959-1960; however, where abnormal factors were at work during these years, a somewhat different period has been used. For Kenya and Tanzania, past period data exclude their trade with each other and with Uganda. For other details, see foot-note a to table 2-1.

Table 4-3. Planned and Past Annual Rates of Growth in Total Exports and Past Rate of Growth in World Trade of Major Export Commodities^a
(Percentage)

Group and country	Major export commodities	Planned rate of growth in total exports	Past rate of growth in world trade of major export commodities	Past rate of growth in total exports
<i>Countries indicating planned rate of growth in total exports not appreciably different from past rate of growth in world trade of major export commodities</i>				
Sudan	Cotton, cotton seed, ground-nuts	4.5	4.8	8.7
Ecuador	Bananas, coffee, cocoa	5	5.0	6.9
Colombia	Coffee, petroleum	5.5 ^b	6.1	6.3
Chile	Copper	6.5	7.2	4.2
<i>Countries indicating planned rate of growth in total exports appreciably less than past rate of growth in world trade of major export commodities</i>				
Trinidad and Tobago.....	Petroleum, sugar	2	10.2	10.6
Jamaica	Aluminium, bauxite, sugar	3.5	6.8	8.1
Venezuela	Petroleum	4.5	10.2	7.3
<i>Countries indicating planned rate of growth in total exports appreciably greater than past rate of growth in world trade of major export commodities</i>				
Ceylon	Tea, rubber, coconut products	2.5	1.5	0.9
Philippines	Sugar, coconuts and coconut products	3	1.4	5.4
India	Tea, jute and cotton manufactures	3.5	1.5	1.5
Pakistan	Cotton and jute and manufactures thereof	4	0.9	0.9
Nigeria	Ground-nuts, palm oil, cotton, cocoa	5.5 ^b	2.3	4.2
Ghana	Cocoa	6	2.4	4.2
Tanzania	Sisal, cotton, coffee, tea, oil-seeds, nuts	6.5	3.5	8.8
United Arab Republic.....	Cotton, rice	6.5	5.0	2.2
Burma	Rice, rubber	7.5	3.5 ^c	5.0
Bolivia	Tin, lead, petroleum	10	-3.2	-6.2
Ethiopia	Coffee	11	5.0	2.0
China (Taiwan)	Sugar, cotton manufactures, tea, rice	11.5	4.0	7.4

Source: See table 4-2 and United Nations, *Commodity Survey, 1962* (Sales No.: 63.II.D.3).

^a See foot-note *a* to table 4-2.

^b Value of merchandise exports.

^c From 1950 to 1960.

plans of these companies. The plan for Trinidad and Tobago, for example, noted that "in view of the dominant role of petroleum exports in the economy, planning in this area resolves itself largely into a question of co-operation between the Government and the oil companies in setting feasible targets".¹

In Trinidad and Tobago, the major factor accounting for the setting of a projected rate of increase in exports substantially below past trends appears to have been supply difficulties connected with the depletion of known petroleum resources and uncertainty as to future prospects of finding new oil wells. In the case of Jamaica, the problem appears to have been quite different. No supply difficulties have been envisaged since the bauxite resources of Jamaica are considered to be quite extensive and depletion is not in sight. The plan, however, mentioned that for various reasons affecting world market conditions the past growth of bauxite exports could not be expected to continue in the future, and a much lower rate of expansion was deemed appropriate for planning purposes. Similarly, in Venezuela, the comparatively low export projections have apparently reflected views with regard to prospective developments not only in world demand but also in supplies from alternative sources.

Finally, there is the third and substantial group of countries whose planned rates of growth in total exports have been appreciably greater than past rates of growth in world trade of their principal export commodities. This divergence may have arisen because trends in world trade of their principal exports have been expected to be more favourable than in the past, because countries have expected to increase their share of world markets in their principal exports or because countries have planned to diversify their exports.

Few countries have indicated their expectations with regard to future trends in world demand for their principal exports. Consequently, if the planned rate of growth in principal exports has been above past trends in world trade, it is not easy to know to what extent this has reflected more favourable expectations regarding world demand or to what extent it has meant that the country has hoped to increase its share in world markets. The plans for Ghana and Pakistan, however, were explicit on this score. The plan for Ghana assumed that world trade in cocoa would increase by 4 per cent *per annum* in the nineteen sixties compared with a rate of only 2.7 per cent in the nineteen fifties; exports of cocoa were then projected on the assumption that Ghana would maintain its share of world markets. The

plan for Pakistan assumed that world demand for jute would increase by 2 per cent *per annum* and that Pakistan would continue to be virtually the sole supplier of world markets.

A number of other countries in this group, however, have clearly set their export targets on the assumption that they would increase their share of world markets in their principal exports. This applies, for example, to such countries as China (Taiwan) and Ethiopia, which are not principal suppliers of world markets. It is perhaps not too surprising that, for such countries, the dominant consideration in planning appears to have been the rate at which exportable supplies could be expanded rather than the implications of export expansion on world prices and market prospects. The plan for Ethiopia, for example, stated that the export target for coffee could be considered feasible "since production may be easily extended to offset any adverse effects of a further fall in price".²

Bolivia and Burma constitute rather exceptional cases in this regard. The plans of both countries have projected relatively high rates of growth for their principal export commodities, although both countries are already important suppliers of these commodities. In the case of Bolivia, an annual rate of growth of 10 per cent has been projected for the plan period, although world trade in its principal export declined during the nineteen fifties. However, it must be borne in mind that at the beginning of the plan period Bolivian exports were far below the level attained in the early nineteen fifties, and hence the relatively high rate of expansion projected for the plan period reflects in part the process of regaining lost ground.

In Burma, the plan took note of the fact that many of the major importers of Burmese rice, particularly in Asia, were striving for self-sufficiency and it observed that the market prospects seemed clouded. The plan none the less assumed that Burma's exportable surplus of rice—planned to increase by 40 per cent over the four-year plan period—would find adequate outlets.

For other countries in this group, notably India, Pakistan, the Philippines and the United Arab Republic, which are also important suppliers of world markets for their major export commodities, the diversification of exports appears to have been the main factor relied upon to achieve the targets for total exports. Pakistan, for example, has expected to reduce its relative dependence on jute and raw cotton by increasing its exports of cotton manufac-

¹ Government of Trinidad and Tobago, National Planning Commission, *Draft Second Five-Year Plan, 1964-1968* (Port-of-Spain, 1963), page 17.

² Ethiopia, Planning Board, *Second Five-Year Development Plan 1955-1959 E.C. (1963-1967 G.C.)* (Addis Ababa, 1962), page 246. Exports of coffee are expected to increase by 35 per cent in value over the five-year period.

tures and a variety of other manufactures. Similarly, the plan of the United Arab Republic has expected that exports of raw cotton would diminish in relative importance and that cotton and other manufactures would assume greater importance. In India, a more intensive effort to accelerate the growth in exports, particularly of other manufactures besides textiles, has underlain the higher projected rate of growth in exports.

In fact, the plans of most countries—whichever of the above three groups they fall into—have contained targets for the diversification of exports. In consequence, the targets projected for total exports have frequently been higher than the targets set for major export staples. This is brought out clearly in table 4-4 where the planned change in the share of export staples in total exports is shown for a number of countries.

Most countries have planned to expand, to some extent at least, the share of minor primary products in exports or, alternatively, to introduce new primary products, and for a few countries these products have been expected to contribute significantly to export diversification during the plan period. In the Nigerian plan, for example, an increasing role has been assumed for petroleum. In India, iron ore, which accounted for a minor fraction of exports in the base period, has been expected to contribute almost one-third to the projected increase in exports during the plan period.³ In Colombia, minor agricultural products which represented less than 10 per cent of total exports in the base period have been expected to account for about one-third of the in-

³ See General Agreement on Tariffs and Trade, Special Report of Committee III, *Development Plans: Study of the Third Five-year Plan of India* (Geneva, 1962), page 37.

Table 4-4. Planned Share of Major Export Commodities in Total Exports
(Percentage)

Country	Major export commodities	Base year of plan	Final year of plan
Ceylon	Tea, rubber and coconut products	93	90
Chile	Copper and other minerals	83	76
Colombia	Coffee, petroleum	79	68
Ecuador	Bananas, coffee, cocoa	85	75
Ethiopia	Coffee	55	57
Ghana	Cocoa, timber	76	72
Pakistan	Cotton and jute and manufactures thereof	80	75
Sudan	Cotton, cotton seed, ground-nuts	72	72
Trinidad and Tobago	Petroleum, sugar	93	87
United Arab Republic	Cotton, rice	69	58
Venezuela	Petroleum	93	91

Source: See table 2-1.

crease in exports. And in Burma, other products besides rice, such as cotton, jute, tea and oil-seeds, have been expected to make a sizable contribution to the projected increase in export earnings.

In most countries, however, it appears that manufacturers and semi-manufactures have been most heavily relied upon to accomplish the diversification of exports envisaged in plans. Among the less industrialized countries, the main emphasis has been on semi-manufactures in the form of processed commodities. In Ethiopia, for example, the share in total exports of processed food products, particularly sugar, oils and fats, canned meat and powdered coffee, has been planned to increase from 5 to 15 per cent over the plan period; in addition, other

processed materials in the form of leather and leather goods, building materials and chemicals have been expected to represent about 6 per cent of exports by the target year. Similarly in Ghana, processed cocoa and timber products and processed bauxite in the form of aluminium have been expected to assume increasing importance during the plan period.

For the more industrialized countries manufacturers have generally been an important factor in export diversification. Thus, the plans of India, Pakistan and the United Arab Republic have all called for manufacturers to play a significant role in the development of exports during the plan period. In the United Arab Republic, for example, manufac-

tured goods—largely textiles and chemical products, but including also some metal products—have been expected to increase their share of total exports from 21 to 31 per cent over the plan period. In Pakistan, the share of cotton and jute manufactures has been envisaged as increasing from 23 to 26 per cent, and in addition several new products such as shoes, pulp and paper and metal products have been expected to become of increasing importance by the end of the plan period. The Indian plan has also called for increasing reliance on manufactures, with chemicals and engineering goods supplementing traditional textile products.

The policies proposed to promote and diversify exports have, to a large extent, been concerned with the provision of incentives to encourage the production of exportable products. As such, they have covered the whole range of measures relating to production, including fiscal and monetary policies, direct participation of government in productive enterprises, physical control of resources and the allocation of foreign exchange. These various policies have been touched upon earlier and mention need only briefly be made here of those concerned directly with the export sector.

To facilitate export diversification, many countries have employed, or have proposed to employ, differential tax and exchange rate policies to encourage exports of new or specially favoured products as against the traditional commodities. In Pakistan, for example, use has been made of an export bonus scheme for a wide range of new or minor products, in conjunction with an export tax on raw cotton and raw jute. Many countries, especially in Latin America, have used differential exchange rates for similar purposes. Countries with official marketing boards for the main export commodities have often accomplished similar ends by adjusting the prices paid to local producers. In the Philippines, under a differential incentive scheme, all exporters have been paid from the revenue of an import tax a proportion of the market price of their exports, the proportion depending on the degree of processing of the export commodity; lower rates have applied to exports in raw form and higher rates to more highly processed exports.

Some countries, to be found mostly in Asia, have sought to encourage exports by the use of a link system between imports and exports of particular commodities. For instance, Burma has introduced a system whereby exporters of certain commodities are given import licences to the value of a certain

percentage of their exports; these licences can be used for imports of "non-essentials" and other items not otherwise available under the normal import programme. Similar schemes have been employed in Pakistan, the Philippines and the Republic of Korea. In India, export promotion councils for major industries have been set up. The function of these councils is to devise measures for market research and the improvement of marketing techniques and to adapt production to the requirements of overseas markets. The plans of several other countries have also mentioned an intention to establish similar export promotion councils or boards.

In summary, it may be said that the above comparison of export targets with past trends reveals quite substantial differences among countries in the extent to which they have expected to alter their export performance. Three countries, namely, Jamaica, Trinidad and Tobago and Venezuela, have assumed lower rates of growth in their exports than would have been expected from prevailing trends in world trade in their major export products; the main reason has apparently been the expectation that there would be some shift to alternative sources of supply. For two other countries, namely, Ecuador and the Sudan, the planned rates of growth in exports have been closely in line with prevailing trends in world trade of their major exports and have not, moreover, exceeded their own past performance. Similarly for the Philippines and the United Republic of Tanzania, although planned rates of growth have exceeded prevailing trends in their major export products, these have not been greater than the rates of increase in total exports achieved in the past.

For most countries, the targets set for exports have represented a substantial improvement over their own past export performance. For Chile, however, the planned rate has not exceeded prevailing trends in its major exports: the main source of the improvement would appear to be an expected recovery in the performance of its principal exports. The same conclusion also applies to Bolivia. But for most of the other countries, the planned increase in exports has denoted a sharp change in both the trend and pattern of their export trade. In countries such as China (Taiwan), Ethiopia, India, Pakistan and the United Arab Republic, planned rates of growth have substantially exceeded not only the prevailing trends in their principal exports but also their own past rates of growth in exports; and it is clearly in countries such as these that by far the most intensive efforts to expand exports have been implied.

Import targets

At first sight, it might be expected that estimates of future import requirements would be of a more certain character than are projections of export earnings, since they do not depend on assumptions about external demand and supply conditions. In practice, however, the element of uncertainty in estimates of import requirements has hardly been less than that in projections of export earnings. Estimates of future import requirements that are both thorough and comprehensive imply that detailed plans both for domestic production and domestic expenditure have been elaborated not only at the level of final goods and services but also at the level of intermediate goods and raw materials. But such detailed planning presupposes a far more complex planning process than has existed in most developing countries; the flows of information and the planning staff required to analyse the information are well beyond the capacity of most developing countries. Consequently, although estimates of total import requirements have often been at least partially based on detailed knowledge about production and expenditure plans for major specific commodities, they have also depended on broad assumptions about import coefficients derived from general economic analysis.

While many plans do not indicate the procedure employed in estimating import requirements, it would appear that some have relied very largely on the analysis of past relations between imports and broad categories of domestic expenditure. The targets in the plans for the Sudan and Nigeria, for example, seem to have been based on past trends, though account appears to have been taken of the import replacement possibilities implied in the plans. By contrast, the projections for Chile, India, Pakistan and the United Arab Republic appear to have been based on detailed studies of the import requirements of the plan, at least as far as investment goods and raw materials are concerned. In the Indian plan, for example, imports have been divided into "maintenance" imports and "development" imports, the former being raw materials and components required for the utilization of available capacity and the latter being imports required for investments included in the plan. With the aid of commodity balances, estimates have then been made for imports under each category, account being taken of import replacement possibilities. In none of the plans, however, were estimates made in detail for all classes of imports. A substantial proportion of total imports was either estimated by means of some broad assumption or was treated as a residual, balancing item. In the Chilean plan, for example, imports of consumer goods other than food were simply assumed to grow by 2 per cent *per annum*. In most countries which

made detailed estimates of import requirements of investment goods and essential materials, however, projections for imports of consumer goods appear to have been residually determined as the difference between expected foreign exchange availabilities and estimated requirements of the more essential categories of imports.

The targets for total imports contained in the plans of most developing countries have been remarkably modest. For some two-thirds of the countries shown in table 4-5, the planned annual rate of growth

Table 4-5. Planned and Past Growth in Volume of Merchandise Imports^a

(Percentage)

<i>Group and country</i>	<i>Annual rate</i>		<i>Approximate difference</i>
	<i>Planned</i>	<i>Past</i>	
<i>Countries indicating planned rate greater than past rate</i>			
Pakistan	14.5	0.6	14
Ethiopia	12.5	2.4	10
Morocco	7	-1.4	8.5
Kenya	5	—	5
Tanzania	7.5	2.9	4.5
Philippines	5.5	1.4	4
Republic of Korea	6	2.1	4
Tunisia	4.5	0.8	3.5
Bolivia	4.5	2.1	2.5
Colombia	2.5	2.4	—
<i>Countries indicating planned rate smaller than past rate</i>			
Chile	4	5.0	-1
Ecuador	4.5	5.5	-1
Sudan	2	3.5	-1.5
Ceylon	1.5	3.4	-2
Burma	1	3.3	-2.5
Ghana	5.5	8.5	-3
Malaysia	4	6.9	-3
Venezuela	2	4.9	-3
India	3.5	8.6	-5
China (Taiwan)	3	10.1	-7
Jamaica	3.5	11.1	-7.5
Nigeria	4	11.6	-7.5
United Arab Republic	-1	7.2	-8
Trinidad and Tobago	1	11.1	-10

Source: See table 4-2.

^a See foot-note *a* to table 4-2.

in imports has been less than 5 per cent. Indeed, for such countries as Burma, Ceylon, the Sudan and Trinidad and Tobago, the assumed annual rate of growth in total imports has been between only one and 2 per cent; and in the United Arab Republic an absolute reduction in total imports has actually been contemplated. These planned changes in total imports have been expected to be accom-

panied by sharp changes in the composition of imports. In almost all countries, imports of capital goods have been expected to advance more strongly than total imports. On the other hand, very modest rates of increase have been planned for imports of consumer goods and, in a few countries, these im-

ports have even been assumed to decline. The rates of increase planned for raw materials and intermediate goods have been more mixed; in some countries these have been expected to rise as strongly as total imports while, in others, the planned rates have been smaller (see table 4-6).

Table 4-6. Planned Annual Rates of Growth in Merchandise Imports,
Total and Components^a

(Percentage)

Country	Total	Capital goods	Intermediate goods	Consumption goods
Pakistan ^b	14.5	21	12	1
Ethiopia	12.5	25	13.5	3.5
Republic of Korea	6	22.5	1.5	0.5
Ghana	5.5	10	6.5	3
Kenya	5	10	5.5	2
Bolivia	4.5	6.5	5	1.5
Ecuador	4.5	8	1.5	4.5
Tunisia	4.5	14.5	3.5	-1.5
Chile	4	6	2.5	3
Nigeria	4	7	3	3
Sudan	2	1	3	2
Venezuela	2	10.5	-3.5	-3
Ceylon	1.5	10	2.5	-2
Burma	1		1	1
Trinidad and Tobago	1	0.5	1.5	1
United Arab Republic	-1	5	-11	-1.5

Source: See table 2-1.

^a Definitions of components may vary among countries; plans do not provide relevant information in sufficient detail to permit rearrangement of data. For Pakistan and Vene-

zuela, time period for components differs from that for total.

^b Including estimated value of development imports. Capital goods imports include some intermediate goods for developmental purposes.

The small size of the rates of growth in imports planned in many countries becomes very readily apparent when they are compared with past rates. For most of the countries planning moderate or low rates of increase in imports, a sharp deceleration in the rate of growth of imports has clearly been intended. Among the more striking examples are China (Taiwan), India and the United Arab Republic. In China (Taiwan) the past rate of increase in imports was over 10 per cent *per annum* while the planned rate has been only 3 per cent; in India a past rate of increase exceeding 8 per cent has been planned to decline to 3.5 per cent; and in the United Arab Republic a past rate of growth of 7 per cent is to be compared with a planned absolute reduction.

The feasibility of these planned changes in imports can be better appreciated if they are considered in relation to the planned increases in total income and output. In the past experience of almost all developing countries, imports have risen strongly in response to domestic growth. The economic structure of these countries has been such that their de-

pendence on imported supplies of capital goods has been heavy, and expanding investment programmes have exerted an upward pressure on total imports; but increased requirements for supplies of raw materials and consumer goods, most notably food, have also enlarged demand for imports. Thus, in the great majority of countries, when the past rate of increase in imports is related to the corresponding growth in gross domestic product, this ratio has equalled or exceeded one. In other words, the rate of growth in imports has generally risen at least as strongly as the rate of growth in gross domestic product. But this past experience has clearly not been reflected in the import targets which many countries have set in their current plans. Only a minority of countries have assumed that the rate of increase in imports relative to the rate of increase in gross domestic product, when expressed as a ratio, would equal or exceed one. In a majority of plans, a lower elasticity has been implied by their import targets and in a number, it has even been less than 0.5. These planned elasticities, as may be seen from table 4-7, have frequently been quite radically different from those prevailing in the past.

Table 4-7. Planned and Past Elasticities of Merchandise Imports^a

Country	Planned	Past
Pakistan	3.7	1.5 or over
Ethiopia	3.4	1-1.4
Malaysia	1.4	1-1.4
Tanzania	1.3	1-1.4
Morocco	1.2	1-1.4
Nigeria	1.1	1.5 or over
Republic of Korea	1.1	Under 0.5
Ghana	1.0	1-1.4
Kenya	0.9	1.5 or over
Philippines	0.8	0.5-0.9
Tunisia	0.8	1-1.4
Chile	0.7	1-1.4
Ecuador	0.7	1-1.4
Jamaica	0.7	1-1.4
Bolivia	0.6	1.5 or over
India	0.6	1.5 or over
Colombia	0.4	1.5 or over
Sudan	0.4	0.5-0.9
China (Taiwan)	0.3	1.5 or over
Venezuela	0.3	1-1.4
Burma	0.2	0.5-0.9
Ceylon	0.2	1-1.4
Trinidad and Tobago	0.2	1-1.4
United Arab Republic	-0.2	1-1.4

Source: See table 4-2.

^a For the plan period, elasticity has been calculated on the basis of percentage increase in volume of imports and percentage increase in gross domestic product between the base year and the final year of the plan. For the past period, it has been estimated generally on the basis of time series for the nineteen fifties.

The estimates for the past period are shown as a range in view of the margin of error which attaches to coefficients based on data that have often been subject to wide fluctuations over the short period involved. They should thus be interpreted only as indicating a general order of magnitude for purposes of comparison with the coefficients shown or implied in the plans.

The question is how it has been planned to realize such radical changes in the relationship between imports and gross domestic product. Such changes mean that, in contrast to past experience, it has been planned to satisfy an increasing proportion of domestic requirements from domestic output. This is a double-edged process in which planned changes in the composition both of domestic requirements and domestic output must be taken into account.

With regard to the changes in the composition of domestic requirements which have been planned in most countries, the direction of these changes has generally been such as to accelerate the growth in imports. In almost all countries, plans have called for a substantial increase in the share of investment in total expenditure and for an offsetting reduction in the share of consumption; and, since the import content of investment is generally much higher than that of consumption, the effect of the planned change

in the pattern of expenditure—taken by itself—has been to raise import requirements in relation to gross domestic product. Only in Burma, China (Taiwan) and Trinidad and Tobago has the share of investment at the end of the plan period been expected to be somewhat lower than at the beginning; and this contributes, in some degree, to an explanation of the very low relative increases in imports implied in the plans of these countries. Of course, although there has generally been a planned shift in the composition of total expenditure towards investment, this is not inconsistent with the possibility that, within the broad categories of investment and consumption, the pattern of expenditure has been planned to shift towards specific forms of investment or consumption which are less dependent on imports. If, for example, the investment programme has called for greater construction activity and less emphasis on investment in machinery and equipment, requirements for investment goods can be more readily met from domestic production. Similarly, it may have been planned—through the use of fiscal measures or import controls—to reduce consumption expenditure on semi-luxury or luxury products which are mainly imported.

However, the main explanation of the relatively small increases in imports assumed in most plans lies more in the expected changes in domestic output than in the expected changes in expenditure: a strong growth in import-substituting production, in other words, has been assumed. It is, of course, extremely difficult to distinguish the influence of the planned growth in import-substituting production on imports from that of the planned change in the composition of expenditure. Some progress can be made in this direction, however, by relating each of the main categories of imports to the corresponding component of domestic expenditure. Thus, in table 4-8, the growth in imports of capital goods has been related to the planned increase in domestic investment expenditure, imports of consumer goods to consumption expenditure, and imports of raw materials and intermediate goods to gross domestic product. In this way, the effect of changes in the composition of expenditure between investment and consumption has been eliminated although the results are still influenced by changes within these categories.

On the basis of these data, it can be seen that an underlying assumption in almost all plans has been that the rate of growth in imports of consumer goods would be lower than the rate of growth in domestic consumption expenditure. Of all the countries shown in table 4-8, the sole exception is Nigeria where imports and domestic expenditure have both been expected to increase at more or less the same pace. In some countries, notably, Ceylon, Tunisia, the United Arab Republic and Venezuela, imports

Table 4-8. Planned and Past Elasticities of Merchandise Imports, Total and Components^a

Country	Total, planned	Consumption goods		Raw materials and intermediate goods		Capital goods	
		Planned	Past	Planned	Past	Planned	Past
Pakistan	3.7	0.3	0.5-0.9	3.1	1.5 or over	1.0	1.5 or over
Ethiopia	3.4	0.9	...	3.7	1.5 or over	2.9	Under 0.5
Nigeria	1.1	1.1	1.5 or over	0.8	1.5 or over	1.9	1-1.4
Republic of Korea.....	1.1	0.1	0.5-0.9	0.2	0.5-0.9	1.7	b
Ghana	1.0	0.6	1.5 or over	1.2	1-1.4	1.7	1.5 or over
Kenya	0.9	0.4	...	1.0	...	1.1	...
Tunisia	0.8	-0.3	1.5 or over	0.6	1.5 or over	1.0	1-1.4
Chile	0.7	0.6	1.5 or over	0.4	Under 0.5	0.6	1.5 or over
Ecuador	0.7	0.8	1-1.4	0.2	1-1.4	0.7	Under 0.5
Bolivia	0.6	0.3	1.5 or over	0.7	1.5 or over	0.6	0.5-0.9
Sudan	0.4	0.4	0.5-0.9	0.6	1.5 or over	0.3	0.5-0.9
Venezuela	0.3	-0.4	0.5-0.9	-0.5	0.5-0.9	1.3	1.5 or over
Burma	0.2	0.1	0.5-0.9	c	0.5-0.9	0.6c	1-1.4
Ceylon	0.2	-0.3	1-1.4	0.4	1.5 or over	1.0	0.5-0.9
Trinidad and Tobago.....	0.2	0.2	1-1.4	0.2	1-1.4	0.3	0.5-0.9
United Arab Republic.....	-0.2	-0.3	...	-1.1	1-1.4	0.4	1-1.4

Source: See table 2-1.

^a Calculations have been made by relating increases in total imports and imports of raw materials and intermediate goods to increase in gross domestic product, and increases in imports of consumption goods and capital goods to increases in private consumption and gross fixed investment, respectively; for Kenya and Pakistan, however, increase in imports of consumption goods has been related to increase in total consumption. For Pakistan and Venezuela, the time period for components differs from that for total. For the past period, data on components of imports have been obtained on the basis of the Standard Inter-

national Trade Classification; these may not always conform to the definitions underlying plan period data.

The estimates for the past period are shown as a range, in view of the margin of error which attaches to coefficients based on data that have often been subject to wide fluctuations over the short period involved. They should thus be interpreted only as indicating a general order of magnitude for purposes of comparison with the coefficients shown or implied in the plans.

^b Imports of capital goods declined while domestic capital formation rose.

^c Imports of raw materials and intermediate goods included with those of capital goods.

have actually been assumed to decline absolutely. It will be recalled that most countries have aimed to accelerate the growth in output of food for domestic consumption, partly in order to reduce their dependence on imports; and achievement of the targets for food production is undoubtedly an important condition of realization of the low targets for consumer goods imports. It has also been necessary to assume, however, that the expansion of domestic industry would heavily reduce dependence on imported manufactures.

Some impression of the intensification in growth of import-substituting production of consumer goods implied in plans can be obtained by comparison of the planned ratios with the ratios that have actually prevailed in the past. It will be seen that, in most countries, it has been assumed that these past ratios would be very substantially changed in the course of the current plans.

With regard to raw materials and intermediate goods, most plans have again assumed that import requirements would expand more slowly than total domestic output of goods and services. Plans have implied that the capacity of the domestic economy to produce the raw materials and intermediate goods

needed as inputs for domestic agriculture and industry would expand relatively to domestic requirements. It must be borne in mind that this category of imports includes not only semi-manufactures but also fuels and a wide range of agricultural and mineral products. While the requirements of raw materials for industry have been small in most developing countries owing to the limited scale of industry, they have none the less been growing quite rapidly. The demand for fuels, both for transport and to generate power for industry, has also shown strong growth. These forces have been evident in the high relative rates of increase in imports experienced by most countries in the past. In view of the limitations on import substitution imposed for this category of imports by natural resource endowment, the much lower relative rates of increase in imports assumed in many plans thus appear surprising.

It is in the field of capital goods that the planned relationship between the growth of imports and domestic expenditure has conformed most frequently to expectations. In a number of countries, the rate of increase in imports relative to domestic investment expenditure has yielded an elasticity of one or more. Imports of capital equipment have been

expected to increase at least as rapidly as domestic investment. For several countries, however, this has not been the case. In Bolivia, Burma, Chile, Ecuador, the Sudan, Trinidad and Tobago and the United Arab Republic, the planned elasticity of imports has been less than one. For most of these countries, this suggests that planned investment programmes have been oriented more heavily towards construction activity than towards types of investment requiring machinery and equipment. For the United Arab Republic, however, it has probably been expected that the expansion in output of domestic heavy industry would reduce the import content of investment.

In summary, it may be said that while a few countries have planned for relatively high rates of growth in total imports a much larger number have projected rates of growth that are decidedly low in relation to the planned increases in gross domestic product as well as in relation to past trends in imports. These low targets for imports have been established despite the fact that the planned increases in domestic investment would generally have been expected to intensify total demand for imports. In a few countries, the growth in demand for imported capital goods has been expected to be moderated by a shift in the composition of investment towards domestic construction activity. But, in general, the main factor underlying the low targets for imports has been the assumption that there would be a sharp expansion in import-substituting produc-

tion of consumer goods as well as, in many cases, of raw materials and intermediate goods.

It is clear that the import targets contained in most plans have implied very substantial changes in dependence on imported supplies. While the more intensive use of measures to restrict import demand, such as fiscal policies and import controls, may contribute towards the realization of these targets, plans have assumed that the primary condition for their achievement would be the growth in domestic production. Thus, the feasibility of the targets for imports has turned primarily on the question of the feasibility of domestic production plans. It must be noted, however, that few countries appear to have explored the implications of their import targets for the future structure of domestic production. Apart from the particular attention given to a few commodities, such as food, the reconciliation of targets for domestic expenditure, production and imports has been carried out only at a fairly aggregative level. As mentioned earlier, targets for imports other than capital goods and, perhaps, a few other strategic commodities have frequently been residually determined. Partly for the very reason that the implications of domestic expenditure and production plans for import requirements have not been worked out in detail, import targets have tended to be treated flexibly as a means of reconciling over-all growth targets with the estimates of foreign exchange receipts.

Balance of payments targets

It has been seen that the targets which have been set in the plans of most countries have called for an acceleration in the rate of growth of merchandise exports and a deceleration in the rate of growth of imports. While exports have generally not been planned to increase as rapidly as total domestic output, they have at least been expected to exceed the pace of advance in imports. Consequently, when expressed as a percentage of the planned change in gross domestic product, some improvement in the trade balances has usually been expected. Relative to the planned change in gross domestic product, the deficit in the trade balance has been expected to diminish over the plan period, or the surplus has been expected to increase (*see table 4-9*). The only exceptions are Ethiopia, India, Malaysia, Morocco, Pakistan, Philippines and the United Republic of Tanzania.

The changes which have been expected in trade balances relative to gross domestic product have usually been accompanied by broadly similar changes

in the balance of payments. Planned improvements in trade balances have been reflected in similar improvements in external balances when the latter are also expressed as percentages of planned changes in gross domestic product; and the converse has likewise been true. More often than not, however, the relative improvement in the external balance has not been as large as that expected in the trade balance, or, where trade balances have been expected to worsen, the relative deterioration has been greater. This has reflected the expectation that net payments on service account would increase.

It is evident from the planned changes in external balances that, as has been discussed earlier, an appreciable number of countries have aimed to reduce their relative dependence on external resources by the end of their current plan periods. Only a minority have assumed that their relative dependence would be greater. As also stressed earlier, however, the reductions in relative dependence do not necessarily mean that the supply of external resources would

Table 4-9. Planned Annual Change in Trade Balance and in Balance of Payments on Current Account as Percentage of Gross Domestic Product^a

Country	Trade balance	Balance on current account
Burma	1.3	1.4
China (Taiwan)	1.3	1.0
Bolivia	1.0	1.0
United Arab Republic	1.0	0.8
Republic of Korea	0.6	0.9
Trinidad and Tobago	0.6	0.5
Colombia	0.5	—
Sudan	0.4	0.4
Ceylon	0.3	0.4
Chile	0.3	0.2
Tunisia	0.3	—
Nigeria	0.2	—
Ecuador	0.1	-0.1
Ghana	0.1	0.2
Jamaica	0.1	-0.3
Venezuela	0.1	—
Kenya	—	-0.1
India	-0.1	—
Philippines	-0.2	-0.3
Tanzania	-0.2	-0.4
Ethiopia	-0.3	-0.3
Morocco	-0.5	-1.2
Pakistan	-1.1	-1.2
Malaysia	-1.9	-1.8

Source: See table 2-1.

^a Balance of payments on current account generally refers to balance of goods, services and private donations. Planned annual change is calculated from the base year to the final year of the plan. For India, planned change is estimated from the annual average for the plan period as a whole. For the Philippines, the Sudan, Tunisia and Venezuela, owing to limitations of data, the time period differs from that stated in annex table II-2; hence data are not strictly comparable with those shown elsewhere. For other details, see foot-note ^a to table 2-1.

Minus sign indicates deterioration in balance.

cease to be of importance by the end of the plan period. This is brought out from the data shown in table 4-10 on the external financing of imports of goods and services at the beginning and end of the plan periods. While the proportion of imports of goods and services to be externally financed has been expected to decline among the countries planning to reduce their relative dependence, in a number of these countries the level of such financing at the end of their plan period has still been expected to be comparatively high. This is particularly true of China (Taiwan) and the Republic of Korea. Only in a few countries, most notably, Bolivia and the United Arab Republic, has the relative improvement in external balances been expected to ensure that, by the end of the plan period, imports of goods and services would be entirely financed by exports of goods and services.

Whatever the balance of payments position projected for the final year of the plan, almost all countries have based their plans on the assumption that there would be a net inflow of foreign capital over the course of the plan period. This can be

Table 4-10. Planned External Financing of Imports of Goods and Services

Country	Net capital inflow as percentage of imports of goods and services ^a	
	Base year of plan	Final year of plan
Republic of Korea	64	42
Pakistan	54	63
India	39	42
Bolivia	36	-20
China (Taiwan)	34	24
Sudan	25	9
Burma	22	7
Tunisia	22	25
Ghana	20	16
Jamaica	18	15
Ceylon	15	6
Philippines	15	25
Colombia	14	1
Chile	13	-1
Trinidad and Tobago	13	10
Ethiopia	11	16
Tanzania	11	20
United Arab Republic	8	-13
Ecuador	5	-1
Kenya	4	6
Venezuela	-1	-2
Malaysia	-10	11
Morocco	-26	1

Source: See table 2-1.

^a Private donations are generally treated as a service item. For China (Taiwan), India, Malaysia, the Sudan, Tanzania and Venezuela, data refer to net capital inflow as percentage of imports of goods and net services. For India, final year refers to the annual average of the plan period as a whole. For Pakistan, imports of goods and services in the base year are estimated from balance of payments statements.

Minus sign indicates net inflow.

seen from the data in table 4-11 where the annual average deficit on current account assumed in plans has been expressed in dollars. Such data are not available for all the countries whose plans are reviewed here but it will be seen that, in all the plans for which information is given, an annual deficit has been assumed. This does not necessarily mean that, in all cases, plans have assumed a net inflow of foreign capital since deficits may also be financed by drawing down foreign exchange reserves. In Malaysia, for example, it appears that withdrawals from reserves have been planned as an important means of financing the deficit. In nearly all other

Table 4-11. Planned and Past Balance of Payments on Current Account^a

(Annual averages in millions of dollars)

Country ^b	Trade balance		Services (net)		Balance on current account		Planned change in balance on current account over past period
	Planned	Past	Planned	Past	Planned	Past	
Pakistan	-550 ^c	-170	-71	1 ^c	-698	-169	-529
India	-1,113	-916	-	211	-1,113	-705	-408
Venezuela	1,595	1,175	-1,640	-951	-45	224	-268
Philippines	-191	-35	13	-8	-178	-43	-135
Tunisia ^d .....	...	-42	...	48	-89	7	-96
Colombia .....	...	...	...	...	-93	-14	-79
Nigeria .....	...	-103	...	-46	-224	-149	-75
Malaysia	39	-26	-127	10	-88	-16	-72
Ecuador	33	37	-96	-50	-63	-13	-50
Sudan	-20	10	-23	-12	-43	-3	-40
Ethiopia	-37	3	-8	-18	-44	-15	-29
Ghana	-57	8	-34	-72	-91	-63	-28
Burma	-44	-	-17	-34	-60	-35	-26
Trinidad and Tobago ...	...	6	...	-54	-73	-48	-26
Republic of Korea ...	-381	-293	117	39	-264	-254	-10
China (Taiwan)	-85	-108	-18	-1	-102	-109	7
Bolivia .....	...	-13	...	-21	-17	-34	17
Chile	89	-5	-121	-63	-32	-58	27

Source: Bureau of General Economic Research and Policies of the United Nations Secretariat, based on Statistical Office of the United Nations, *Yearbook of National Accounts Statistics*; International Monetary Fund, *Balance of Payments Yearbook* (Washington, D.C.), and national development plans.

^a Balance of payments on current account generally refers to balance of goods, services and private donations. Past period data refer to averages of five years prior to the plan period, except for Chile, Malaysia, Morocco

and Pakistan, where they refer to averages of four years. For Colombia, past period data are in 1958 prices. For Malaysia, past period data pertain to the former Federation of Malaya and Singapore.

No sign indicates surplus; minus sign indicates deficit.

^b Countries are listed in descending order of increase in deficit on current account.

^c Government payments for services included with imports and excluded from services.

^d Excluding tourism and investment income.

countries, however, plans have been predicated on the assumption of a substantial inflow of foreign capital.

In most countries, the annual deficit on current account which has been expected to obtain over the plan period has represented a decided deterioration in the balance of payments position compared with that prevailing in the years immediately preceding the plan. Thus, although most countries have planned for an acceleration in the growth of export earnings and a deceleration in the growth of import payments over their plan periods, at the higher levels of economic activity assumed in plans the excess of imports of goods and services over exports of goods and services has been expected to be absolutely greater. Of the countries shown in table 4-11 only Bolivia, Chile and China (Taiwan) have expected that the deficit in the balance of payments on current account for the plan period as a whole would be smaller than in the years immediately preceding the

plan. In most countries, the size of the annual deficit assumed over the plan period has represented an increase over the actual deficit experienced in the recent past of 50 per cent or more.

In the main, the larger deficits on current account appear to derive primarily from expected increases in the absolute size of the deficits in merchandise trade. In a number of countries, however, an increase in net payments on service account has also been expected to contribute significantly to the deterioration in the balance of payments; in fact, in Malaysia and Venezuela this has been the exclusive source of the expected annual deficit on current account. Very few plans contain detailed estimates for the various items included in the service account but, as is suggested by the data given below, an increase in net investment income payments appears to have been an important factor affecting the expected changes in this account in a number of countries.

PLANNED AND PAST NET INVESTMENT INCOME^a

(Annual averages in millions of dollars)

Country	Planned	Past
Venezuela	—809	—560
Chile	—133	—71
Colombia	—99	—46 ^b
Philippines	—63	—48
Ecuador	—19	—23
Sudan	—4 ^c	1
Republic of Korea	—2	4

Source: See table 4-11.^a No sign indicates net receipts; minus sign indicates net payments.^b In 1958 prices.^c Government interest only.

In estimating the inflow of external finance required for the realization of plan targets, few countries have been able to confine their attention solely to the question of financing import requirements. Amortization payments on external debt contracted in the past constitute a first claim on the supply of

foreign exchange receipts, and in estimating the requisite inflow of external finance, account has therefore had to be taken of the payments which have to be made over the plan period. In general, the necessary inclusion of amortization payments has considerably altered the magnitude of the total foreign exchange requirements envisaged over the plan period.

Since almost all developing countries have been obliged, in varying degree, to borrow from abroad in order to assist in the financing of their domestic investment and imports, the level of external indebtedness and the consequent flow of amortization payments have generally been increasing over the post-war years. Thus, among the countries whose plans specify expected amortization payments over the plan period, the amount of these payments generally is considerably greater than the payments actually made in the years immediately preceding the plan (see table 4-12). This means that, when

Table 4-12. Planned and Past Balance of Payments on Current Account, Amortization Payments and Foreign Exchange Gap^a

(Annual averages in millions of dollars)

Country ^b	Planned			Past			Planned change in foreign exchange gap over past period
	Balance on current account	Amortiza- tion payments	Foreign exchange gap	Balance on current account	Amortiza- tion payments	Foreign exchange gap	
Pakistan	—698	—61	—760	—169	—15	—184	—577
India	—1,113	—231	—1,344	—705	—72	—777	—567
Venezuela	—45	—54	—99	224	—32	192	—291
Philippines	—178	—30	—208	—43	—30	—73	—135
Ecuador	—63	—18	—81	—13	—8	—22	—59
Ghana	—91	—40	—131	—63	—14	—77	—54
Sudan	—43	—16	—58	—3	—5	—7	—51
Colombia	—93	—42	—134	—14	—72	—86	—48
Burma	—60	—8	—68	—35	—1	—36	—33
Republic of Korea	—264	—4	—268	—254	—	—254	—14
Chile	—32	—157	—189	—58	—120	—178	—10
China (Taiwan)	—102	—20	—122	—109	—6	—115	—7

Source: See table 4-11.^a See foot-note ^a to table 4-11.^b Countries are listed in descending order of planned increase in foreign exchange gap over past period.

account is taken of the need to finance amortization payments, the increase over pre-plan years in total external financial resources required by current plans is considerably greater than that suggested by the deficits in the balance of payments on current account alone. For example, in India, the planned annual deficit in the balance of payments on current account has been some \$408 million greater than the deficit recorded in the five years preceding the current plan; the total foreign exchange gap, however, has been about \$567 million greater. Again, in Chile, although the planned annual deficit on current account has

been expected to be some \$26 million less than in pre-plan years, the annual foreign exchange gap has been expected to increase by some \$10 million. Thus, in general, the size of the foreign exchange gap has been appreciably greater than the deficit in the balance of payments on current account; and it has been this gap, rather than the deficit on current account, which countries have had to consider in assessing the feasibility of their plans. The supply of external financial resources has had to be sufficient to finance this gap; if the likely supply has seemed to be less than the initially estimated gap, the planned

deficit in the balance of payments has had to be reduced, in all probability by lowering import targets.

In summary, it appears that although plans have frequently made very conservative estimates of import requirements and have sought to accelerate the growth in export earnings, a very substantial

increase in the net inflow of foreign capital has nevertheless generally had to be assumed. Estimates of the requisite net inflow, moreover, understate the total requirements for foreign aid since a growing burden of amortization payments has also had to be faced.

Chapter 5

TARGETS AND POLICIES FOR THE FINANCING OF DEVELOPMENT PLANS

Most development plans, as already indicated, have sought to increase the share of investment in gross domestic product in order to accelerate the rate of economic growth. A major preoccupation of plans has therefore been the formulation of targets and policies which would ensure an adequate rate of increase in the supply of resources available for investment. The aim of raising the level of investment has had to be balanced against a realistic evaluation of the possibilities for increasing the supply of saving. In undertaking this assessment of the level at which the balance between investment and saving should be struck, most plans have stressed that the target set for investment should not be such as to endanger the stability of prices; it has generally been explicitly stated that the financing of higher levels of investment by inflationary means was not an acceptable policy.

For almost all countries, evaluation of the possible increase in the supply of resources which might become available for investment has been based upon separate estimates of the potential supply of external resources, of domestic public saving and of domestic private saving. The means by which estimates have been made of external resources—which, for the great majority of developing countries, are identical with the net inflow of foreign capital—have been described in the preceding chapter. It was noted that the assumed increase in the net inflow of foreign capital has, in part, reflected expectations about the feasible increase in supplies, as suggested by the past inflow, the current commitments of donor countries and institutions and other similar considerations; in part also, it has reflected views about the increase needed in order to support the development plan and realize an adequate rate of growth. In some countries, the estimation of requirements has been based primarily on an assessment of the extent to which domestic saving would have to be supplemented by external resources in order to achieve an adequate increase in the level of investment. In others, the main consideration in estimating requirements has been the need to bridge the gap between import requirements and foreign exchange earnings. In both cases, however, the assumed inflow of foreign capital has served

to augment the supply of resources available for investment.

As regards domestic saving, it has invariably proved much easier to form estimates of public saving than of private saving. Most plans, as can be seen from table 5-1, have established targets for public saving after making projections of the current revenue and expenditure of government. The plans have usually calculated current revenue on the basis of projected income and output and of certain assumptions—often not explicitly stated—regarding the revision of tax rates and the broadening of the tax base. In broad terms, nevertheless, such plans have provided some idea of the range of governmental measures expected to be adopted for increasing current revenue; these measures, as described later, have been envisaged to yield substantial increases in both tax and non-tax revenue. The estimated level of current expenditure has usually been arrived at on the basis of the expected level of national income and the increase in population. Only in a few countries, for example, India and Pakistan, have more detailed studies of public finance been conducted in formulating targets for current expenditure.

The estimates of private saving, by contrast, have been much more conjectural. In most developing countries, information on the levels and past behaviour of corporate and household saving is scanty, if not completely absent. There is frequently little or no knowledge about the distribution of income or about household budgets on which some impression of the trend in household saving could be based; and while there is usually more information available about the corporate sector, little is known about unincorporated enterprises which often form the main part of the enterprise sector. Only a very few plans, notably those of Tunisia and the United Arab Republic, have in fact attempted estimation of business and household saving separately.

It has further to be remembered that the dissociation between those who save and those who invest which prevails in developed economies is by no means so great in many developing countries. Particularly in the agricultural sector, the decision to save more out of current income is frequently taken by the same persons as those who decide to undertake more in-

Table 5-1. Synopsis of Targets for Financing of Plans

Country	Target for domestic saving			Targets for components of public saving	
	Total	Private	Public	Current revenue	Current expenditure
Burma	Yes	Yes	Yes	Yes	Yes
Ceylon	Yes	Yes	Yes	Yes	Yes
Chile	Yes	Yes	Yes	Yes	Yes
Colombia	Yes	Yes	Yes	Yes	Yes
Ecuador	Yes	Yes	Yes	Yes	Yes
Ethiopia	Yes	Yes	Yes	Yes	Yes
Ghana	Yes	Yes	Yes	Yes	Yes
Iran	Yes	Yes	Yes	Yes	Yes
Jamaica	Yes	Yes	Yes	Yes	Yes
Malaysia	Yes	Yes	Yes	Yes	Yes
Nigeria	Yes	Yes	Yes	Yes	Yes
Philippines	Yes	Yes	Yes	Yes	Yes
Republic of Korea	Yes	Yes	Yes	Yes	Yes
Sudan	Yes	Yes	Yes	Yes	Yes
Tanzania	Yes	Yes	Yes	Yes	Yes
Tunisia	Yes	Yes	Yes	Yes	Yes
United Arab Republic	Yes	Yes	Yes	Yes	Yes
Venezuela	Yes	Yes	Yes	Yes	Yes
India	Yes	Yes	Yes	a	a
Pakistan	Yes	Yes	Yes	a	a
Trinidad and Tobago	Yes	Yes	Yes	No	Yes ^b
Bolivia	Yes	No	No	No	Yes ^b
Morocco	Yes	No	No	No	Yes ^b
Senegal	Yes	No	No	No	Yes ^b
China (Taiwan)	Yes	No	No	No	No
Kenya	Yes	No	No	No	No

Source: See table 2-1.

^a Target for public saving is provided, but not for total current revenue or total current expenditure. However, the plan does contain targets for "balance from current revenue"

and "additional taxation". India's plan also shows the target of tax revenue as a percentage of national income.

^b Government consumption expenditure.

vestment; and, while still dependent on income, saving can also, to a significant degree, be regarded as a function of the incentive to invest. To some extent, therefore, expectations about the possible increase in private saving are related to expectations

about the possible increase in private investment. This, however, does not lessen the conjectural character of estimates for private saving. It only means that estimates for private investment and private saving have both been in the nature of desired goals.

Targets for domestic saving and external resources

Most countries, as discussed earlier, have proposed to realize substantial increases in levels of domestic investment over the course of their plan periods. The planned increase has been outstandingly large in Morocco and Pakistan where the share of investment in gross domestic product has been projected to rise by as much as 2 per cent *per annum*. It has also been very large in Malaysia, the Republic of Korea and the United Republic of Tanzania where the annual increase has been expected to exceed one per cent. Only in Burma, China (Taiwan) and Trinidad and Tobago has the level of investment at the end of the plan period been expected to be some-

what lower than at the beginning; but it should be recalled that these number among the few developing countries where the level of investment in the recent past has equalled or exceeded 20 per cent of the gross domestic product.

For some countries, the planned increase in the share of investment has rested heavily on the assumption that the inflow of external resources would also rise in relation to gross domestic product. This, as can be seen from table 5-2, has not necessarily meant that a less vigorous effort to raise the level of domestic saving has been proposed. The projected

Table 5-2. Planned Annual Increase in Share of Saving in Gross Domestic Product^a
(Percentage)

Group and country	Gross domestic saving	External resources	Total supply of saving
<i>Countries where share of external resources is planned to decline or remain unchanged</i>			
Republic of Korea	2.4	-0.9	1.5
Tunisia	1.9	-1.0	0.9
United Arab Republic	1.5	-0.8	0.7
Bolivia	1.4	-1.0	0.4
Senegal	1.3	-0.4	1.0
Ceylon	1.1	-0.4	0.7
China (Taiwan)	0.9	-1.0	-0.2
Chile	0.7	-0.2	0.5
Ecuador	0.7	-0.1	0.6
Colombia	0.6	-	0.6
Iran	0.6	-0.4	0.2
Burma	0.5	-1.4	-0.8
India	0.5	-	0.5
Ghana	0.4	-0.2	0.3
Sudan	-	-	-
Nigeria	-	-	-
Trinidad and Tobago	-0.2	-0.5	-0.7
<i>Countries where share of external resources is planned to increase</i>			
Morocco	0.9	1.2	2.0
Pakistan	0.9	1.2	2.0
Tanzania	0.9	0.4	1.3
Ethiopia	0.5	0.3	0.8
Kenya	0.5	0.1	0.6
Philippines	0.4	0.4	0.8
Venezuela	0.2	0.2	0.4
Jamaica	-0.3	0.3	-
Malaysia	-0.7	1.8	1.2

Source: See table 2-1.

^a Total supply of saving equals gross domestic capital formation. Exceptions are: Ghana, Iran, Jamaica and the Sudan, gross domestic fixed capital formation; India, net domestic capital formation.

External resources equal the deficit in balance of payments on goods, services and private donations account. Exceptions are: Colombia, Ecuador, Ghana, Iran, Kenya, Morocco, Tanzania, Trinidad and Tobago and the United Arab Republic, goods and services account; Bolivia, Nigeria, Senegal, the Sudan and Tunisia, goods and services other than factor income account; Ceylon, Ethiopia and Jamaica, goods, services and all donations account.

The concept of external resources differs from that of external balance used in table 2-5 by the inclusion of net factor payments and private donations.

Gross domestic saving is obtained as a residual by subtracting external resources from total supply of saving. For India, data refer to net domestic saving.

Because of the adjustments made in order to render plan data internationally comparable, the figures shown in this and subsequent tables are not necessarily the same as those shown in the plans.

For other details, see foot-note a to table 2-1.

increases in the level of domestic saving in the plans of Morocco, Pakistan and the United Republic of Tanzania, for example, have been substantial; combined with the assumed increases in dependence on external resources, these have accounted for the very sharp advances in levels of investment proposed in these plans. But in the majority of countries, it has been expected that the planned increase in the share of investment in gross domestic product would at least be matched by an equivalent increase in the share of domestic saving, and in a number of these countries the change in the latter has been planned to exceed that in the former. Thus, the relative contribution of external resources to the financing of domestic investment has been planned to remain constant or to decline (see table 5-3). In general, this marks a decided reversal of the trend in the nineteen fifties when, in the majority of developing countries, the relative importance of external resources tended to increase.¹

While aims with regard to the change in dependence on external resources have differed, a common feature of plans has thus been the intention to realize a substantial increase in the level of domestic saving. In only a few countries, namely, Jamaica, Malaysia, Nigeria, the Sudan and Trinidad and Tobago, has it been expected that no increase or a decline in the share of domestic saving in gross domestic product would occur over the current plan period. These exceptions, however, are of particular interest since their projections for domestic saving have most clearly taken account of the influence of prospective trends in the export sector. Malaysia and Nigeria, it will be recalled, are the only two countries examined in this report whose plans have been entirely constructed on the assumption of falling export prices; and Jamaica, the Sudan and Trinidad and Tobago, though assuming constant export prices, have all expected a substantial deceleration in the rate of growth in their exports. The export trade in all these countries, moreover, is channelled through corporate enterprises or marketing boards whose saving behaviour is highly responsive to changes in income. Thus, expectations regarding the trend in total domestic saving have been dominated by assumptions about export prospects. Among all the other plans in which an increase in the level of domestic saving has been assumed, it is less evident that account has been taken of the influence of the export sector. Of course, the export sector as a source of saving is relatively unimportant in some of these countries, while in others a stronger upward trend in export earnings has been expected. But even where the export sector is relatively large and prospective trends in exports have not been op-

¹ See United Nations, *World Economic Survey, 1960* (Sales No.: 61.II.C.1), chapter 2.

Table 5-3. Planned Distribution of Total Supply of Saving^a
(Percentage)

Group and country ^b	Gross domestic saving		External resources	
	Base year of plan	Final year of plan	Base year of plan	Final year of plan
<i>Countries where share of external resources is planned to decline or remain unchanged</i>				
Republic of Korea	—6	60	106	40
Tunisia	30	80	70	20
United Arab Republic	89	112	11	—12
Bolivia	37	120	63	—20
Senegal	42	73	58	27
Ceylon	54	92	46	8
China (Taiwan)	56	76	44	24
Chile	86	100	14	—
Ecuador	69	81	31	19
Colombia	115	109	—15	—9
Iran	73	91	27	9
Burma	74	92	26	8
India	75	80	25	20
Ghana	72	81	28	19
Sudan	81	84	19	16
Nigeria	63	63	37	37
Trinidad and Tobago	66	72	34	28
<i>Countries where share of external resources is planned to increase</i>				
Morocco	170	99	—70	1
Pakistan	45	44	55	56
Tanzania	73	72	27	28
Ethiopia	85	79	15	21
Kenya	85	86	15	14
Philippines	101	85	—1	15
Venezuela	102	98	—2	2
Jamaica	76	71	24	29
Malaysia	137	71	—37	29

Source: See table 2-1.

^a See foot-note *a* to table 5-2.

^b Countries are listed in the order followed in table 5-2.

timistic, there is little evidence that this has depressed expectations about the growth in domestic saving.

The increase in the level of domestic saving which, except for the countries just noted, has been called for in development plans, has of course not implied that any absolute reduction in the level of total consumption has been planned. What it has denoted is an intention to set aside a substantial proportion of the planned increase in total income as saving; in other words, plans have aimed to achieve a marginal rate of domestic saving significantly above the past average rate. Save in the countries noted above, the projected marginal rate of domestic saving has exceeded 20 per cent almost everywhere and, in a number of plans, a rate greater than 30 per cent has even been assumed (see table 5-4). In the recent past, comparatively few developing countries have

achieved such relatively high rates; and in most of the countries which have, exceptional circumstances have prevailed. These, for example, include Jamaica, the Sudan and Trinidad and Tobago, all of which are countries where, as just noted, the export sectors are dominated by large corporate enterprises or marketing boards and where past trends in exports were buoyant; and the same holds for most of the other countries, such as Burma, Ghana and Iran, which also recorded relatively high marginal rates of saving. Among the remaining countries, past marginal rates of saving were generally substantially below 20 per cent, and the planned rates, if realized, would signify a very decided change in saving behaviour.

By far the greatest change in saving behaviour has been postulated in the Republic of Korea where

Table 5-4. Planned and Past Marginal Rates of Gross Domestic Saving^a
(Percentage)

Country	Planned	Past ^b
Tunisia	50	...
Republic of Korea	49	Under 10
United Arab Republic ..	39	10-14
Bolivia	37	...
Colombia	35	20 or over
Morocco	34	Under 10
Ceylon	33	10-14
Tanzania	30	...
Chile	29	Under 10
Pakistan	27	Under 10
Burma	26	20 or over
Ecuador	25	10-14
Ghana	25	20 or over
Senegal	25	...
China (Taiwan)	24	10-14
Ethiopia	23	...
Iran	23	20 or over
Kenya	23	...
Venezuela	23	15-19
Philippines	21	10-14
India	19	15-19
Trinidad and Tobago ..	13	20 or over
Jamaica	10	20 or over
Nigeria	10	15-19
Sudan	9	20 or over
Malaysia	-12	...

Source: See table 2-3.

^a Marginal rate of gross domestic saving refers to the increase in gross domestic saving as a percentage of the increase in gross domestic product. For other details, see foot-note ^a to table 2-1 and foot-note ^a to table 5-2.

^b The estimates for the past period are shown as a range in view of the margin of error which attaches to coefficients based on data that have often been subject to wide fluctuations over the short period involved. They should thus be interpreted only as indicating a general order of magnitude for purposes of comparison with the coefficients shown or implied in the plans.

it has been proposed that a past marginal rate of less than 10 per cent would be transformed into a planned rate of almost 50 per cent. Though data on past trends are not available, a similarly large change appears to have been proposed in Tunisia. Marginal rates above 30 per cent have also been planned in Ceylon, Colombia, Morocco and the United Arab Republic, though only in Colombia did the past rate exceed 20 per cent. Among other countries, the improvement over past performance assumed in plans

has also been particularly great in Chile and Pakistan, while very large changes have been proposed in China (Taiwan), Ecuador and the Philippines.

It might have been expected that the differences among countries in the proportion of the planned increase in income which they have hoped to set aside as saving would have reflected differences in the policies they have proposed to pursue with regard to consumption. But, in fact, the differences among countries in the targets set for the growth of total consumption have been comparatively modest (see table 5-5). One or two countries, such as China (Taiwan) and Senegal, have planned for relatively high rates of growth in total consumption because they have allowed for high rates of increase in *per capita* consumption. And a few others, notably Ethiopia, Pakistan, Tunisia and the Republic of Korea, have assumed that the pace of advance in total consumption would be relatively slow, either because they have not allowed for much increase in *per capita* consumption or because the expected growth in population has been comparatively small. But in most countries, the targeted annual rate of increase in total consumption has been within the range of 4.5 to 5.5 per cent.

Targets for the rate of growth in total consumption have been more striking in their similarity than in their dissimilarity. In other words, there has been no noticeable tendency for countries planning relatively high marginal rates of domestic saving to propose more rigorous policies of constraint on the growth of total consumption. They have been enabled to plan for relatively high marginal rates, not because of their consumption policies, but simply because the rates of growth in total income assumed in plans have also been relatively high.

Of course, this none the less has significant implications for policy. Even if the rates of growth in total income and output can be achieved, there is no automatic assurance that a rising proportion of income will be saved. The saving habits of the community as a whole have to change, and to change in the right degree, in order to bring about the planned increase. In this sense, the relatively high marginal rate of domestic saving which has been postulated in a considerable number of plans, even though predicated on the assumption of a higher rate of growth in total income and output, has constituted a greater challenge to domestic saving policies. In order to assess the feasibility of these targets, it is therefore necessary to consider the sources from which the planned increases in domestic saving have been expected to come and the policies proposed for realizing these increases.

Table 5-5. Planned Increases in Gross Domestic Saving, Gross Domestic Product, Consumption and Population^a
(Percentage)

Country	Marginal rate of gross domestic saving ^b	Annual rate of increase					
		Gross domestic product	Total consumption	Population	Per capita consumption		
					Total	Public	Private
Tunisia	50	6	3.5	1.5	2	...	...
Republic of Korea.....	49	6	3	3	0.5	2	—
United Arab Republic.....	39	7	5	2	2.5	3	2.5
Bolivia	37	7	5	2.5	2.5	6.5	2
Colombia	35	5.5	5	3	2	3.5	1.5
Morocco	34	6	4.5	2	2.5	5	3
Ceylon	33	6	4.5	3	1.5	1.5	1.5
Tanzania	30	6	4.5	2	2.5	3	2.5
Chile	29	5.5	4.5	2.5	2	—	2
Pakistan	27	4.5	3.5	2	1.5	...	...
Burma	26	6	5.5	2.5	3	1.5	3.5
Ecuador	25	6.5	5.5	3	2	2	2.5
Ghana	25	5.5	5	2.5	2	5	1.5
Senegal	25	8	6.5	2	4.5	7	4.5
China (Taiwan)	24	8	7	3	4	...	...
Ethiopia	23	4.5	3.5	1.5	2	5.5	1.5
Iran	23	5.5	5	2.5	2.5	...	...
Kenya	23	5	4.5	3	1	...	...
Venezuela	23	6	6	3	3	-0.5	3.5
Philippines	21	6	5.5	3.5	2	2	2
India	19	5.5	5	2.5	2.5	...	...
Trinidad and Tobago.....	13	5	5	3	2	3	1.5
Jamaica	10	5	5	2	3	...	...
Nigeria	10	4	4	2-2.5	1.5-2	8-8.5	0.5-1
Sudan	9	5	5	3	2	3.5	2
Malaysia ^c	-12	2.5	3.5	3.5	0.5	2	—

Source: See table 2-1.

^a See foot-note *a* to table 5-2.

^b See foot-note *a* to table 5-4.

^c Data on gross domestic product and its components are in current prices; the plan assumes that export prices will decline.

Targets and policies for private saving

While only some plans have indicated the sources from which the increases in total domestic saving have been expected to come, it is quite apparent that the dominant role has generally been assigned to private, rather than to public, saving. This is evident enough from the data presented in table 5-6. Owing to differences among countries in the inclusion or exclusion of depreciation in their estimates of saving, countries have had to be divided into three groups. Within each of these groups, however, the data are roughly comparable, and it will be seen that, whether or not the data are gross of depreciation, the expected contribution of private saving to the planned increase in total saving has generally exceeded the expected contribution of public saving. In only three countries, namely, Chile, Jamaica and the Sudan, has the opposite been true; and at least in Chile

and the Sudan it is possible that, if the data on private and public saving could be expressed as gross of depreciation, the relative importance of these sources of saving might be the same as in other countries.

This is not to say that the expected role of the public sector in contributing to the increase in total saving has generally been expected to be insignificant, but it does emphasize that the main burden has been placed on private saving. This fact is of particular importance in considering the feasibility of over-all targets for total domestic saving since, as has been discussed in chapter 1, trends in private saving are only partially influenced by governmental policies. The marginal rate of private saving actually attained in individual countries has also been influenced by such factors as the relative size of the corporate

Table 5-6. Planned Distribution of Gross Domestic Saving^a
(Percentage)

Group and country	Base year of plan			Increase from base year to final year of plan		
	Private saving	Public saving	Provision for depreciation	Private saving	Public saving	Provision for depreciation
<i>Group A</i>						
Malaysia	71	29	...	136	-236	...
Tanzania	83	17	...	86	14	...
Ecuador	64	36	...	72	28	...
Venezuela	71	29	...	72	28	...
Chile	46	54	...	41	59	...
Sudan	60	40	...	39	61	...
<i>Group B</i>						
Burma	47	21	32	124	-26	2
Ghana	70	10	21	57	32	10
Philippines	42	14	44	52	18	30
Ceylon	-10	61	49	48	35	17
Colombia	25	24	51	47	30	23
<i>Group C</i>						
United Arab Republic ...	109	-9	...	77	23	...
Republic of Korea.....	-10	110	...	71	29	...
Jamaica	91	9	...	41	59	...

Source: See table 2-1.

^a Group A: Data refer to gross private and gross public saving. Group B: Data refer to net private and net public saving. Group C: Provision for depreciation for the economy as a whole is included with private saving; public saving is net of depreciation. Within each group countries are listed in descending order

of share of private saving in the increase in gross domestic saving from the base year to the final year of the plan. Except for Colombia, Jamaica, the Republic of Korea and Tanzania, public saving includes saving of public corporations; for these four countries, saving of public corporations are included with private saving.

Private saving is derived as a residual; for Burma it includes what the plan calls a "gap".

sector, the level of household incomes and changes in the distribution of income. And these economic and institutional characteristics of countries have generally been of more fundamental importance than governmental policies in accounting for differences among countries in the marginal rates of private saving actually attained.

In view of the circumscribed role of governmental policies in determining the behaviour of private saving, it might have been expected that the changes in private saving assumed in plans would have been mainly based on projections of past trends in private saving, perhaps with some upward revision being made to allow for the positive impact of proposed governmental measures. But, in fact, the marginal rates of private saving assumed in plans appear to have often deviated substantially from the rates actually attained in the past (see table 5-7). For example, in the Republic of Korea, the proportion of the increase in total income expected to be saved by the private sector has been 35 per cent; but in the recent past, the same proportion amounted to less than 10 per cent. Again, in Ceylon, the planned figure for the increase in private saving has been 21 per cent while the past figure was under 10 per cent. Similarly wide disparities are evident in Burma, Chile, Colombia, Ecuador and the United Republic

of Tanzania. In Ghana, the Philippines and Venezuela, however, the planned and past rates have been roughly similar, while in Jamaica and the Sudan the past rate was higher.

It is, of course, true that some of the general economic developments which have been assumed to occur over current plans periods could be expected to work in favour of an improvement in the performance of private saving. Among these have been the higher rates of growth in income and the expanding size of the corporate sector—whether privately or publicly owned—which is necessarily associated with progress in industrialization. Further, plans have generally proposed that governments adopt or reinforce measures designed to stimulate private saving. Liberal depreciation allowances and tax concessions on undistributed profits, for example, have been generally recommended as means of stimulating corporate saving and investment. Improvements in banking facilities have been suggested as necessary to encourage saving habits. Many plans have also emphasized the need to foster loan and saving associations, post office saving banks, rural thrift societies and other institutions to facilitate saving. Several plans, including those of Ceylon, China (Taiwan), Ecuador, Pakistan, the Republic of Korea and the Sudan have dwelt upon the need

Table 5-7. Planned and Past Marginal Rates of Private Saving^a
(Percentage)

Group and country	Planned	Past ^b
<i>Group A</i>		
Tanzania	26	...
Ecuador	18	Under 10
Malaysia	16	...
Chile	12	Under 10
Venezuela	9	Under 10
Sudan	4	15-19
<i>Group B</i>		
Burma	33	Under 10
Colombia	17	Under 10
Philippines	7	Under 10
<i>Group C</i>		
Republic of Korea	35	Under 10
United Arab Republic	30	...
Ceylon	21	Under 10
Ghana	20	20 or over
Jamaica	10	15-19

Source: See table 2-3.

^a Marginal rate of private saving refers to the increase in private saving as a percentage of the increase in gross domestic product. For definitions of country groups, see foot-note *a* to table 5-6. For comparability with past data, plan data for Ceylon and Ghana have been adjusted to conform with the definition of saving for *Group C* instead of *Group B* as in table 5-6.

^b See foot-note *b* to table 5-4.

to create or expand stock exchange facilities in order to provide an outlet for the more venturesome investors. The encouragement of contractual savings, most notably through provident and pension funds, and the more extensive use of government bond

issues have also received specific mention in a number of plans. Finally, the plans of Ceylon, Ghana, India, Pakistan, the Philippines, the Republic of Korea and the Sudan have suggested revisions in interest rates to strengthen the incentive to save.

It has not been possible to assume, however, that governmental policies would always work in favour of higher rates of private saving. The plan of Ceylon, for instance, noted that the proposed redistribution of income in favour of the poorer classes might offset the increase in saving expected from the growth in income. In view of the widespread importance attached to the social objective of a more equitable distribution of income, this may often prove to be a major factor circumscribing the growth in private saving. In addition, as will be seen below, a general aim of governmental policy has been an increase in tax revenue, and fiscal policy to raise public saving may sometimes adversely affect private saving.

Even if the governmental policies proposed in plans were to have an exclusively favourable impact on private saving, it would still have to be accepted that their influence is severely circumscribed. The behaviour of private saving cannot be expected to alter sharply as a consequence of those governmental measures which have been specifically designed to encourage such saving. In conditions of stable prices—which is the assumption made in plans—the growth in private saving responds mainly to changes in the economy that are both of a general and of a long-run nature; and the assumption of a radical change over the relatively short period of a medium-term plan has therefore seemed optimistic.

Targets and policies for public saving

While main reliance has been placed on private saving, plans have none the less generally assumed that public saving would contribute appreciably to the increase in total domestic saving. For most developing countries, this is in contrast to the experience in the nineteen fifties when the contribution of the public sector to the growth in total domestic saving was negligible or even negative.² Of the countries whose plans provide information about the expected trend in public saving, only Burma and Malaysia have assumed that there would be a decline in public saving in their current plan periods (see table 5-6).

The general aim of achieving a substantial improvement in the performance of public saving has

been most often sought through restraints on the growth of current expenditure. When the planned increase in current expenditure is related to the planned increase in gross domestic product, it is found that, in a number of countries, such expenditure has been assumed to expand more slowly than total domestic output (see table 5-8). This is in strong contrast to past trends when the growth in current expenditure generally exceeded that in gross domestic product. For some countries, most notably Ceylon and the United Arab Republic, the planned reduction in the relative rate of increase in current expenditure has been particularly large. Colombia, Ghana, Jamaica and Malaysia are the only four of the thirteen countries shown in table 5-8 where the relative rate of increase in current expenditure has been expected to be higher in the current plan period

² See *World Economic Survey, 1960*, chapter 2.

Table 5-8. Planned and Past Elasticities of Current Revenue and Expenditure of Government^a

Group and country	Current revenue		Current expenditure	
	Planned	Past	Planned	Past
<i>Countries where current revenue is planned to increase substantially more than current expenditure</i>				
Republic of Korea.....	2.5	2.2	1.4	1.6
Ghana	1.3	0.1	0.8	0.6
Ceylon (B)	1.2	1.0	0.9	3.2
Philippines	1.2	1.5	0.9	1.5
Chile	1.0	1.4	0.6	1.2
United Arab Republic.....	1.0	1.3 ^b	0.5	1.1 ^b
Ceylon (A)	0.9	1.0	0.5	3.2
<i>Countries where current revenue is planned to increase somewhat more than current expenditure</i>				
Colombia	1.7	1.0	1.5	0.9
Ecuador	1.1	1.5	1.0	1.1
Tanzania	0.9	...	0.7	...
Venezuela	0.8	0.1	0.6	1.3
<i>Countries where current revenue is planned to increase less than current expenditure</i>				
Jamaica	1.7	1.3	1.8	1.1
Sudan ^c	0.9	2.3	1.5	2.3
Malaysia	0.3	1.4	2.1	1.0
Burma	0.2	1.5	0.6	1.5

Source: See table 2-3.

^a Elasticity refers to the ratio of percentage increase in current revenue or in current expenditure to percentage increase in gross domestic product. Ceylon's plan contains targets on two different assumptions: (A) that subsidies for "food and business operations" will be eliminated by the terminal year, and (B) that such subsidies will amount to Cey Rs

310 million in the terminal year and an equivalent amount of additional revenue will be raised through appropriate tax measures. Past period data generally refer to the period between 1953-1954 and 1959-1960. For other details, see footnote ^a to table 2-1.

^b Refers to the ordinary budget of Government.

^c Data refer to central government budget.

than it was in the past; and it will be noted that, in these countries, the past ratio was quite moderate.³

Compared with the planned changes in current expenditure, most plans have assumed much less radical changes in the trend of current revenue. A number of plans, in fact, have expected that the growth in current revenue relative to the increase in gross domestic product would be somewhat less buoyant than it was in the recent past. One important reason has probably been the assumption that the relative importance of exports and imports in gross domestic product would decline in the course of the current plan period; since taxation from foreign trade turnover is a major source of revenue, this assumption must have adversely affected the expected trend in revenue. An extreme example in

this regard is Malaysia, where an exceptionally low relative rate of growth in current revenue has been projected; this appears to have been related to the assumption that export prices would decline in the course of the plan period, thereby both adversely affecting yields from corporate income taxes and requiring reductions in export duties. Burma is another country whose plan projected an extremely small growth in revenue, but in this case the explanation is less evident; the plan stated that the target for revenue was based on the assumption of unchanging tax rates, but it also appears to have been expected that tax yields would be highly unresponsive to increases in income.

For the various reasons which were discussed in chapter 1, the tax structures prevailing in developing countries have generally been such that tax revenue has not been strongly responsive to the growth of total income and output. There has certainly been general awareness of this fact. As is brought out below, among the countries whose plans discuss the problem of raising revenue in any detail, recommen-

³ It should be borne in mind, however, that the estimates of planned increases in current expenditure have frequently excluded certain items of recurrent expenditure on the grounds that they are more properly classified as development expenditure; to this extent, the increases in current expenditure may be understated in comparison with past trends.

dations have generally been in the direction of improving the elasticity of the tax structure. Still, even when allowance has been made for the effect of proposed changes in taxes on the growth of revenue, the expected responsiveness of revenue to the planned growth in total income and output has generally not been high. It is only in Colombia, India and the Republic of Korea that the expected elasticity of tax revenue has been substantially greater than one (see table 5-9). In most of the

Table 5-9. Planned and Past Elasticities of Total Current Revenue and Tax Revenue^a

Country	Total current revenue, planned	Tax revenue	
		Planned	Past
Republic of Korea.....	2.5	2.0	2.2
Colombia	1.7	1.6	1.0
Ghana	1.3	1.2	-0.3
Ceylon (B)	1.2	1.1	1.0
Philippines	1.2	1.2	1.6 ^b
Ecuador	1.1	1.0	1.3
United Arab Republic.....	1.0	0.8	0.7
Ceylon (A)	0.9	0.8	1.0
Sudan	0.9	0.8	2.7
Tanzania	0.9	0.9	...
Venezuela	0.8	0.2	0.1
Burma	0.2	0.2	1.0
India .....	...	2.2	1.8

Source: See table 2-3.

^a See foot-notes to table 5-8.

^b Including certain current transfers from households and private non-profit institutions.

countries for which such data are available, the growth of tax revenue has not been expected to be significantly higher than that of gross domestic product. For some countries such as Ghana, this has denoted a significant improvement over past performance, but for others, such as Ecuador and the Sudan, it has represented a deterioration.

Although plans have generally sought to increase public saving mainly through setting modest targets for current expenditure, they have not suggested specific lines of action for restraining the growth in such expenditure. As noted earlier, very few countries appear to have undertaken detailed studies of future trends in current expenditure, and the implications of the over-all expenditure targets for the various aspects of governmental activity have therefore not been made explicit. The means by which such targets are to be realized have thus been left to later decision. In contrast, plans have generally accorded much greater attention to the problem of expanding current revenue; they have contained recommendations intended to bring about improvements in fiscal policy as well as to increase revenue from non-tax sources.

Plans have commonly emphasized that revenue from both direct and indirect taxes should be increased. However, the possibility of enlarging revenue from the customary forms of direct taxation, such as income or profits tax, has usually been expected to be limited. While some plans, such as that of Ghana, have recommended steeper and more progressive rates of direct taxation, it has generally been recognized that the effect of such changes would become evident only over a long period. A number of plans have, therefore, looked to certain new direct taxes as a means of increasing tax revenue. The plan of India, for example, listed in this category such recently adopted measures as the wealth tax, the capital gains tax, the expenditure tax and the estate duty, though it also implied that the yield from these taxes would be likely to remain relatively small. Use of the expenditure tax has also been suggested in Ceylon's plan and the estate duty in Ethiopia's plan. The plan of Pakistan suggested that the desirability of a capital gains tax should be considered. In the Tunisian plan, taxes on patents and certain professions have been favoured.

It is indirect taxes, however, which have been expected to remain the mainstay of tax revenue in the foreseeable future. The few plans that have indicated targets for direct and indirect taxes separately clearly reflect this belief. As the following data show, only in Iran has the planned share of indirect taxes in the total tax revenue been comparatively small, and this is largely because of the inclusion of royalties from petroleum—a substantial part of total tax revenue—in receipts from direct taxes.

INDIRECT TAX RECEIPTS AS PERCENTAGE OF TOTAL TAX REVENUE

Country	Base year or first year of plan	Final year of plan
Sudan	97	94
Republic of Korea	77	77
Burma	73	72
United Arab Republic	69	70
Philippines	64	64
Ecuador	74	63
Iran	41	38

Source: See table 2-1.

As between the various indirect taxes, plans have envisaged a number of important shifts. Traditionally customs duties have bulked large in the total tax revenue collected by developing economies. But plans have suggested that the tax structure would be progressively shifted from foreign trade to domestic production, although they have also indicated that the transformation would likely be slow. The plans of Ghana, Malaysia and Pakistan, among others, have indicated the need for lowering or removing export

duties in order to encourage their exports, especially in times of weak external demand for their products. On the import side, some sacrifice of revenue has also been expected in order to encourage, through reduction or removal of duties, imports of machinery and essential intermediate goods. The plan of Pakistan, however, has emphasized the importance of imposing surcharges even on imports of such strategic items as machinery and heavy equipment; it has been argued that the surcharges would bring the market price of these goods nearer to their scarcity value and would thus promote a better allocation of resources. In general, given the great importance attached to the process of import substitution, a far more pervasive theme running through the plans has been that the relative importance of import duties would diminish as the planned increases in domestic output displaced imports.

The plans have, therefore, looked for extensive increases in internal commodity taxation. The plans of Ceylon and Ghana, for instance, have observed that the industries which have received the benefits of protection from foreign competition should contribute to state revenue through new excise duties. The plans of such countries as Colombia and Ecuador have also emphasized the need for a sales tax. It has commonly been argued that commodity taxes are easier to impose and collect, and that, moreover, they help to restrain consumption. Although it has been recognized that commodity taxation often imposes a greater burden on the poor, so large are the requirements for additional revenue that the plans have been prepared to tolerate a certain degree of inequity at the present stage of development. Moreover, as the plans of India, Pakistan and Trinidad and Tobago have pointed out, not all commodity taxes are necessarily regressive; in fact, a progressive element can be introduced by applying higher rates on luxury items which are consumed mainly by the rich. In order to create resiliency in the tax system so that tax yields increase if prices rise, the plan of Pakistan has recommended that commodity taxes should be levied on an *ad valorem* basis rather than as specific duties, as has often been the case in the past.

Some plans have also emphasized that steps should be taken to expand revenue from the agricultural sector. In a number of countries yields from land taxes have remained unchanged over the years since assessed values have not been subject to any revision.

The need for reforming the agricultural tax structure has, therefore, been stressed. The plans of India and Pakistan, moreover, have suggested that "betterment levies" should be charged wherever irrigation and other major agricultural schemes have brought substantial gains to the peasants. The plans of Colombia, Ecuador and Venezuela have also called for the imposition of a tax on unused land, though the main objective in this case is not revenue but rather the extension of agricultural cultivation.

Several plans have also attached great importance to improving the administrative machinery for tax collection. This has been especially stressed in the plans of Bolivia, Burma, Chile, Ecuador, Ethiopia, Ghana, India, the Philippines and Venezuela. Simplification and rationalization of the tax system, removal of loop-holes, prevention of tax evasion and general improvement in the efficiency of tax collection are among the measures most frequently cited.

Simultaneously with the measures for broadening the tax base, the plans have called for steps to enlarge non-tax revenue. Particularly striking in this connexion is the change in views regarding the contribution of public enterprises. The plan of India, for example, has expressed the belief that the enlargement and ploughing back of profits of public enterprises had an important contribution to make to the financing of economic development; in deciding the price policy for their products public enterprises had therefore to bear in mind the need for maximizing their surpluses. The plan of Trinidad and Tobago has also envisaged a significant contribution from the operating surpluses of public enterprises. Ghana's plan has expressed the hope that public enterprises would contribute to government revenue in a reasonable time. The plans of Ceylon and China (Taiwan) have indicated the need for revision of rates charged by government services.

In general, it is clear that plans have given considerable attention to measures designed to accelerate the growth in revenue. It is none the less apparent that, in most countries, these measures have not been expected to effect radical changes in the tax structure. Within the course of the current plans, the responsiveness of tax revenue to the growth of income has accordingly not been expected to improve substantially. Thus, the feasibility of the targets for increased public saving has depended mainly on the ability to exercise the proposed restraints on the growth of current expenditure.

Measures for channelling financial resources

Besides the task of increasing the supply of real resources for investment, plans have also recognized that investment may be impeded because the financial

resources which are saved are not made available to the potential investors; and measures to facilitate this transfer have generally been proposed. It is

true that, in developing countries, investment and saving are often undertaken by the same persons; this, for example, is particularly the case in agriculture, though it also applies to many of the small and unincorporated enterprises. And, most plans have expressed the hope that there would be significant increases in such self-financed investment. But in other activities individual savings do not usually arise at points where they can be utilized for productive investment. This is a problem that is encountered in any country; but it is much more acute in the under-developed countries where proper lend-

ing institutions either are lacking or are inadequately equipped to cope with the financial requirements of various units of production. In order to meet this problem, the plans have emphasized the need for setting up appropriate institutions or channels for facilitating flows of finance into productive uses.

In the past the public sector in developing countries has generally invested more than it has saved. In most of the countries for which comparable data are provided by the plans, such a pattern has been expected to continue to prevail during the plan period (*see* table 5-10). Indeed, in such countries as

Table 5-10. Planned Shares of Sectoral Investment and Saving in Gross Domestic Product^a
(Percentage)

Country ^b	Gross investment		Gross saving		Excess of gross saving over gross investment		External resources
	Public	Private	Public	Private	Public	Private	
Tanzania	9	15	3	15	-7	—	7
Tunisia	18	14	11	15	-7	—	6
Burma	9	11	4	13	-5	3	4
India	7	5	2	7	-5	2	3
Malaysia	7	9	2	10	-5	1	4
Ceylon	11	7	9	8	-3	1	2
Ecuador	8	10	5	9	-3	-1	4
Sudan	7	5	4	4	-2	-1	3
Trinidad and Tobago...	4	22	2	16	-2	-6	8
Philippines	4	12	3	11	-1	—	2
Chile	8	8	8	7	1	-1	1
Venezuela	7	14	7	12	1	-1	—

Source: See table 2-1.

^a Data refer to the plan period as a whole, except for Tanzania and Tunisia, where they refer to the final year of the plan. Investment data for Burma, the Philippines and the Sudan

exclude changes in stocks. For other details, *see* foot-note ^a to table 5-2 and foot-note ^a to table 5-6.

^b Countries are listed in ascending order of the excess of public saving over public investment.

Burma, India, Malaysia, Tunisia and the United Republic of Tanzania the planned shortfall of public saving over public investment has been substantial, amounting to 5 per cent or more of gross domestic product. In the main, the excess of public investment over saving has been expected to be covered by an inflow of external resources, though in some countries it has also been proposed to draw upon domestic private saving. There are cases, of course, where the private sector's saving has also been envisaged to be less than its investment. This is a prominent feature of Trinidad and Tobago's plan, which has aimed to cover the shortfalls in both the public and private sectors through a large inflow of external resources. But among the countries listed in table 5-10, it is only in Chile and Venezuela that the public sector has been expected to make a net contribution to the financing of private investment.

To finance the excess of the public sector's investment over its saving, plans have expected that governments would be obliged to undertake extensive programmes of borrowing from private institutions and individuals. It has frequently been emphasized that banks and insurance companies should be called upon to invest increasingly in government securities. The plans of such countries as China (Taiwan), Ethiopia, Kenya and Trinidad and Tobago have expressed the hope that the establishment of a central bank would contribute, *inter alia*, to a better control over the asset portfolios of commercial banks. Most plans have stated that such measures as sales of savings bonds, establishment of provident funds and expansion of post office banking facilities would enable governments to tap small savings. A number of plans, as for example that of Ethiopia, have also favoured sales of some shares

of public corporations to private persons. The plans of China (Taiwan) and Nigeria have suggested that some of the public enterprises which had become going concerns should be sold outright to the private sector; this approach has been favoured partly to serve as an inducement to the private sector and partly to initiate new activities with the help of finance secured through the sale of existing public enterprises. A few plans have also mentioned the use of an expansion in the money supply as a component in the financing of public investment; it has been assumed, however, that the planned increase in the money supply would be roughly in line with the growing cash requirements of the economy associated both with increasing output and with the monetization of the subsistence sectors.

Although most plans have expected that the private sector, unlike the public sector, would be able to finance its own investment, it has been emphasized that specialized financial institutions would be needed in order to fill certain gaps in the financial structure. For example, commercial banks in the developing countries do not generally provide long-term finance to industries. And although the development of stock exchanges, by providing a market for shares and debentures, has been expected to contribute materially in some countries to the process of industrialization, this has not obviated the need for additional institutional finance for industry. To fill this need for long-term industrial finance, plans have

proposed the establishment or expansion of specialized public or semi-public institutions to serve as industrial banks. The plans of Chile, Colombia, India and Pakistan, where these institutions have already been in operation for some time, have looked forward to the further strengthening and expansion of this activity. In several other countries—for example, Burma, China (Taiwan), Ethiopia, the Philippines and Trinidad and Tobago—plans have stressed the need for establishing similar institutions.

In some cases, such financial institutions have been expected to promote the supply of finance to non-industrial enterprises as well. More commonly, however, the plans have proposed separate institutions for this purpose, especially in order to channel funds to the agricultural sector. In a number of cases where such specialized institutions are lacking, the plans—for example, those of Ethiopia and Ghana—have called for the establishment of an agricultural bank or a rural development agency to provide financial assistance to cultivators. In some countries, however, especially in Latin America and southern Asia, where institutions for the provision of credit to the agricultural sector have been in existence for several years, the plans have stressed the need for expanding and strengthening these institutions through larger government subventions or by forging closer links between these institutions and the central bank.

Chapter 6

RECENT PROGRESS IN THE IMPLEMENTATION OF PLANS

Many of the plans reviewed in the preceding chapter have not been implemented for more than one or two years, and it is not yet possible to comment extensively on their progress. Discussion in this chapter has therefore had to be confined to a minority of countries whose current plans were initiated in the first two or three years of the present decade. Since the sample is small and since data on the most recent developments are often not available, generalizations based on available information are necessarily of limited significance. Nevertheless, the analysis does serve to reveal some of the problems which have been commonly experienced in the process of implementation.¹

There is naturally great interest in the extent of the progress which has been made towards the realization of plan targets; and, in so far as information allows, such progress is reviewed in this chapter. It is fair to comment, however, that progress in plan implementation should not be judged simply by whether or not plan targets are in prospect of being achieved. Success or failure in the realization of plan targets may be influenced by factors quite beyond the control of any government. In appraising the effectiveness of planning, the real issue is whether, through the adoption of a plan, the management of governmental policies has been improved. If a plan contributes towards the more effective mobilization and utilization of resources for the achievement of national economic and social objectives, it serves its purpose even though the specified targets may not be realized.

This draws attention to a paradox of planning among those developing countries which have recently initiated their first comprehensive plans. It is that a principal task in the implementation of plans has been the creation of governmental machinery for planning itself. It has been the experience almost everywhere that formulation of a first comprehensive plan has preceded the creation of adequate governmental machinery for plan implementation. In fact, if the experience of developing countries

now engaged in their second or third plan is any guide, it was the elaboration of a first plan which stimulated efforts to develop the machinery for implementation. These efforts have necessarily extended over time, contributing gradually to improvements in both the formulation and the implementation of subsequent plans.

The features of governmental organization that constitute obstacles to effective plan implementation and the nature of the requisite changes are familiar and need not be dwelt upon at length here. The organizational structure of the public services was fashioned originally for such limited purposes as the maintenance of law and order; and it has not generally been attuned to the more dynamic needs of plan implementation. Governmental departments have often lacked the staff to undertake the detailed advance planning of projects; delays in implementation have consequently ensued because projects have been insufficiently prepared or not prepared at all. Though individual departments may have been able to initiate their own projects, adequate machinery for the co-ordination of departmental programmes has often been absent; the initiation and completion of related projects have not been appropriately phased and newly constructed capacity has lain idle for lack of the requisite supplies. More generally, plans have not impinged upon the traditional procedures for budget preparation. For the annual budget to serve as a principal instrument of plan implementation, it is necessary to have effective machinery for co-ordination of the activities of the ministry of finance and the planning agency. The staff, organization and authority for the integrated preparation of annual plans and annual budgets have, however, often been lacking.

While creation of adequate organizational arrangements has been a condition of effective plan implementation, it has obviously had to be accompanied by a readiness to utilize the machinery for the execution of new measures. It is, in fact, the extent to which the processes of governmental decision making are modified to permit decisions to be made in the light of plan objectives which is central to the assessment of plan implementation. The evaluation of such a change necessarily requires detailed, direct knowledge of events in individual countries; and it

¹ For a broader discussion of the problems and methods of implementation, see United Nations, *Planning for Economic Development* (Sales No.: 64.II.B.3), especially chapters 2 and 3.

has therefore not been possible to undertake this in the present report. But it need hardly be emphasized that countries have differed widely in the vigour with which they have sought to develop adequate machinery and to execute new measures.

It is certainly true that some of the plans reviewed in this report have had small, or negligible, influence on the conduct of governmental policies. Political changes have sometimes led to the virtual abandonment of plans; or major changes in economic circumstances have called for the reformulation of policies. Plans may none the less have remained nominally in force although superseded in practice by new policies or priorities.² Further, plan implementation has sometimes been neglected because of weakness or inertia at the political centre or because the balance of political forces has made it difficult to institute certain necessary measures. In

² In general, unless plans have been explicitly replaced by others it is difficult to know for certain that they have been discarded.

this document, because of the lack of specific information about the situation in individual countries, plans have necessarily been taken at their face value. But this should be understood not to imply any judgement about their actual status.

It should also be borne in mind that the recent experience of the countries reviewed in this chapter is not necessarily typical of the developing countries as a whole. Moreover, even for the countries reviewed here, the time periods over which plan implementation can be measured are very short and do not extend beyond 1963; the record of progress in plan implementation may therefore appear quite different when current plans have been completed and data are available for the full period. In fact, preliminary evidence suggests that, in a number of instances, developments in 1964 were more favourable than in preceding years and might suggest some modification of the conclusions about recent planning experience.

Recent trends in output

Among a majority of the countries for which data covering two or more years of the current plan period are available, rates of growth in total output have so far fallen perceptibly short of plan targets (*see table 6-1*). Ceylon, Chile, India and Tunisia are among the countries whose progress towards the achievement of plan targets has been least favourable; preliminary estimates of trends in 1964

are, however, available for the first three of these countries, and they indicate an appreciable improvement over past performance. Although the actual rates of growth in certain other countries, such as Burma, the Republic of Korea and the United Arab Republic, have also been somewhat less than projected, the pace of expansion has none the less been relatively high; but for Burma, preliminary esti-

Table 6-1. Planned and Actual Annual Rates of Growth in Gross Domestic Product^a
(Percentage)

Country	Planned	Actual during plan years ^b				Average for years indicated
		1960	1961	1962	1963	
China (Taiwan)	8		8.0	6.3	6.6	7.0
United Arab Republic.....	7	6.1	3.5	8.6	...	6.1
Burma	6			4.3	7.4	5.9
Ceylon	6	5.4	3.1	3.2	2.3	3.5
Morocco	6	6.7	-4.1	10.6	...	4.4
Republic of Korea.....	6			3.5	6.8	5.2
Tunisia	6			1.5	6.2	3.9
Chile	5.5		3.5	6.5	1.7	3.9
Colombia	5.5		4.9	5.0	4.0	4.6
India	5.5		2.7	2.4	4.5	3.2
Sudan	5		13.5	1.5	...	7.5
Pakistan	4.5	4.4	5.5	3.7	7.5	5.3
Malaysia	4		5.1	6.7	...	5.9

Source: See table 2-3.

^a See foot-note *a* to table 2-1.

^b Data have been conformed as far as possible to plan figures. For Burma, data refer to the fiscal year ending in the year indicated; for India, Pakistan, the Sudan and the United Arab Republic, they refer to the fiscal year beginning in the year indicated.

mates of developments in 1964 indicate a marked deceleration.

A significant minority of countries have been recording rates of growth which have exceeded planned rates. The most notable instances in this regard are China (Taiwan) and Pakistan. China (Taiwan) has now completed its third four-year plan and preliminary data for 1964 indicate that the target for the increase in output over the whole plan period was easily exceeded. Data for Pakistan are available for most of its current plan period and these likewise reveal that the rate of growth in total output has been well above the planned rate. In certain other countries, recent rates of growth have also been in excess of planned rates but since the data cover fewer years, less significance can be attached to these results.

As might have been expected, when rates of growth in total output are translated into *per capita* terms, very few countries appear to have recorded progress that bears out the plan projections (see table 6-2). Rates of growth in population appear, if anything, to have been higher than expected.

The importance of the agricultural sector in influencing the pace of over-all growth has been clearly illustrated by recent experience (see table 6-3). In Pakistan, for example, the growth in agricultural output over a number of years has exceeded expectations; and in China (Taiwan), although the increase in output appears to have fallen short of the target, the pace of expansion has none the less been relatively high. On the other hand, the poor performance of agriculture in such countries as Chile and India has retarded over-all growth. A majority of countries have, in fact, not succeeded in achieving the rates of increase in agricultural output which

Table 6-2. Planned and Actual Annual Rates of Growth in *Per Capita* Gross Domestic Product^a

(Percentage)

Country	Planned	Actual ^b
China (Taiwan)	5	3.5
Tunisia	4.5	1.7
United Arab Republic	4.5	3.5
Burma	4	3.7
Morocco	4	1.7
Ceylon	3	0.8
Chile	3	1.6
Colombia	3	2.3
India	3	1.1
Republic of Korea	3	2.3
Pakistan	2.5	3.1
Sudan	2	4.4
Malaysia	1	2.5

Source: See table 2-3.

^a See foot-note *a* to table 2-1.

^b Refers to plan years for which data are available as indicated in table 6-1.

they had planned. It should be noted, however, that harvests during the latest full crop year were generally better than those in preceding years; were these included in the data shown in table 6-3, a more favourable trend in output over current plan periods would be recorded by most countries.

As was pointed out earlier, increased production of food-grains to keep pace with population growth and to reduce reliance on imports has been given much emphasis in most development plans. Recent experience in food-grain production is summarized and compared with planned rates of expansion in table 6-4. Of the countries shown in the table only Ceylon, Morocco and Pakistan appear to have averaged rates of growth of food-grain production more or less in line with the planned rates. For the other countries, actual performance has so far fallen well below plan targets. For Colombia, India, the Sudan and the United Arab Republic the shortfalls have been especially marked.

In contrast to agricultural production, it appears generally to have proved easier to realize planned rates of growth in industrial production. In a few countries, such as the Republic of Korea and the United Arab Republic, industrial production has actually been expanding at a faster rate than planned. Again, however, there have been exceptions and some countries have been recording substantially lower rates of expansion. Thus, in Chile, India and the Sudan, the output of manufacturing industry has been increasing at a rate appreciably below the projected rate.

SOME RECENT AGRICULTURAL POLICIES

Since the data on agricultural production which have just been described cover very short periods, it is obvious that they may provide a very inexact measure of progress in the implementation of agricultural plans. But the temptation to ascribe poor performance in agriculture exclusively to unfavourable weather conditions should also be resisted. That weather conditions have sometimes been fairly important is true. In the recent past, wide year-to-year changes have been recorded by such countries as Chile, China (Taiwan), Morocco, the Republic of Korea and the United Arab Republic. But one purpose of agricultural policy has been to reduce the random influences of weather on agricultural production through irrigation, soil conservation schemes, increased use of fertilizers and similar measures. At any rate, it is difficult to avoid the conclusion that the implementation of agricultural development plans has so far generally not been very successful in raising output and reducing year-to-year fluctuations.

Table 6-3. Planned and Actual Annual Rates of Growth in Agricultural and Industrial Production^a
(Percentage)

Group and country	Agriculture						Industry					
	Planned		Actual ^b		Total		Mining		Manufacturing		Basic facilities	
	Planned	Actual ^b	Planned	Actual ^b	Planned	Actual ^b	Planned	Actual ^b	Planned	Actual ^b	Planned	Actual ^b
<i>Countries where targets for both agriculture and industry have been met or exceeded</i>												
Malaysia	3	3.2	7	...	c	...	e	7.5e	11.1e	4.5	...	e
Pakistan	2.5	3.7	...	9.5	6	—	8.5	9.0	4 d	5.9	...	18.5
Sudan	4	5.8	7.5	11.8	25	8.3	21	9.3	5 e	15.0	6	6.3
<i>Countries where target for industry has been met or overfulfilled but where there has been a shortfall in agriculture</i>												
China (Taiwan)	5.5	3.8	11.5	...	5.5	...	...	12.5	12.5f	9.5	...	...
Republic of Korea	5	—3.3	...	...	g	...	g	11.5g	15.0g	...	...	...
United Arab Republic	5	0.3	11	...	27.5	...	...	13.5	15.3h	5	...	—0.5
<i>Countries where there has been a shortfall in targets for both agriculture and industry</i>												
Chile	5.5	—2.3	...	...	6	1.1	6.5	3.6	...	...	7	19.8
Colombia	4.5	3.8	7	5.8	1	1	8.5	6.3	6 i	5.0i	1	i
India	4.5	0.2	...	...	...	...	...	11 f	7.2f	...	...	...
Morocco	5.5	2.4	...	...	4.5	1.3	9	4.7	7 j	7.4j	7	8.3

Source: See table 2-3.

^a See foot-note a to table 2-1.

^b Refers to plan years for which data are available. Years are as indicated in table 6-1, except for Colombia where data pertain to 1960-1962.

^c Mining and construction included in manufacturing.

^d Transport and communications only.

^e Commerce included in basic facilities.

^f Based on index of manufacturing production.

^g Mining included in manufacturing.

^h Based on gross value of production.

ⁱ Mining and construction included in basic facilities.

^j Electricity only.

Table 6-4. Planned and Actual Annual Rates of Growth in Food-grain Production in Food Deficit Countries^a

(Percentage)

Country	Total		Per capita	
	Planned	Actual ^b	Planned	Actual ^b
Ceylon	8.5	7.8	5.5	5.0
Sudan	8.5	3.8	5.5	0.8
United Arab Republic.....	6	2.5	3.5	-0.1
India	5.5	0.6	3.3	-1.5
Colombia	4.5	1.7	1.5	-0.5
Pakistan	4	3.6	2	1.5
Morocco	2.5	3.8	0.5	1.1

Source: See table 3-4.

^a Data generally refer to quantum of major food-grains. See also foot-note *a* to table 2-1.

^b Refers to plan years for which data are available; see foot-note *b* to table 6-3.

In some of the countries which have recently enjoyed considerable progress in agricultural production, an important reason has been the successful exploitation of under-utilized natural resources. Thus, in Ceylon, the favourable experience in meeting the targets for production of food-grains has been closely related to the colonization schemes for opening up new land for rice production; a large part of the increased output of rice has been due to increased acreage. Also, in Malaysia, colonization schemes have played a large role in the growing production of oil-palm and thus in furthering the announced policy of diversifying agriculture. For some countries, the adoption of such schemes has been precluded by the unavailability of suitable virgin land; but there remain numerous countries where land resources have still not been fully exploited. It is true that the costs of land clearing and of housing and other amenities for settlers may make such schemes initially expensive; but, at the same time, the obstacles to the introduction of improved agricultural methods which arise from the traditional social and institutional structure of rural society are absent.

Pakistan offers another instance where an increase in the area effectively under cultivation has contributed substantially to recent progress. Large tracts of land have been reclaimed or improved through the sinking of many thousands of tube wells to reduce salinity or waterlogging. These improvements in irrigation, however, have been accompanied by other measures also yielding quick results. There has been a decided upward trend in the use of such key inputs as fertilizers, improved seeds and implements. To stimulate the use of fertilizers the Government decided to fix the prices of fertilizers at about 50 per cent of the cost and to keep these reduced prices constant throughout the second plan period. As a

result, the use of fertilizers increased sharply from 31,000 tons in 1959/60 to 55,000 tons in 1960/61.³ Another recent measure has been the establishment of an Agricultural Development Corporation in each Province. These Corporations have been charged with the responsibility of distributing supplies of agricultural inputs, providing credits and disseminating knowledge about improved agricultural practices, soil conservation and land reclamation.

Not all the measures taken to stimulate agricultural production can be expected to yield results within the relatively short period of current medium-term plans. Measures for land reform or irrigation programmes entailing major construction works require considerable time for their implementation, and their benefits are likely to be reaped only in subsequent plan periods. The steady growth in agricultural output which has been recorded in China (Taiwan) over a number of years, for instance, owes much to measures taken in the nineteen fifties. In the first two four-year plans, investment—financed substantially by foreign aid—was concentrated heavily in agriculture; and the large-scale investment programme was accompanied by other measures, such as land reform and the development of extension services, designed to strengthen the agricultural sector. It was only in the third four-year plan, completed in 1964, that the emphasis was shifted from agriculture and agriculture-based industries to industry in general. In recent years, however, the provision of current inputs into agriculture has continued to expand rapidly and substantial improvements in yields have been achieved. With extensive irrigation, heavy application of fertilizers and improved methods of cultivation, two crops a year have been raised from most of the cultivated land.

Almost all countries have given high priority to promoting the increased utilization of such inputs as irrigation, fertilizers and improved seeds since these may generally be expected to yield fairly quick results. However, in many cases implementation of these programmes has met with various difficulties, such as shortages of physical inputs, inadequate co-ordination or advance planning and scarcities of trained personnel to administer the programmes. With such shortages and inadequacies, limited resources have sometimes been spread too thin to show noticeable results. To overcome this type of problem some countries have introduced pilot area schemes with the aim of concentrating efforts in a small number of selected areas. Thus, under the intensive agricultural district programme adopted by India

³ In the next two years, however, the increase of fertilizer consumption decelerated owing to a cut in the subsidy of fertilizer prices; this induced the Government to restore the subsidy in the beginning of 1964.

in recent years, a district has been chosen in each state on the basis of its potentialities for development and receptivity to the programme, and intensive efforts have then been made in these areas to strengthen extension and community development services, provide larger supplies of fertilizers, pesticides and improved seeds and increase irrigation facilities. This programme was initiated in 1961 and first results in many areas have been favourable. By 1964, the use of fertilizers in these districts doubled, institutional credit utilized increased by 50 per cent and in most cases the yield per acre showed considerable gains.⁴ Schemes of this kind are not only intended to enhance productivity in the few selected areas; as the progress in these villages becomes evident it is also expected that other villages will be stimulated to emulate the advanced techniques and practices of the pilot areas.

PERFORMANCE IN INDUSTRY

Plans for industrial growth have generally yielded more favourable results than have agricultural plans. In large measure, whenever planned rates of growth in industrial output have not been achieved, the reasons have lain in causes external to the industrial sector. In some countries, poor results in agriculture have adversely influenced industrial production, particularly in those branches of industries dependent upon indigenous raw materials. Also the chronic scarcity of foreign exchange observed in many developing countries has sometimes limited the availability of imported supplies of spare parts, semi-manufactures and raw materials; this has led to the periodic under-utilization of available productive capacity.

It is perhaps inevitable that implementation of industrial development plans should present fewer problems and show consistently more favourable results than is true of agricultural plans. For one

⁴ See India, Planning Commission, *First Report of the Expert Committee on the Assessment and Evaluation of the Intensive Agricultural District Programme* (New Delhi, 1964).

thing, the bulk of manufacturing production is carried on in relatively large-scale units, whereas agriculture is characterized by a mass of small cultivators difficult to reach and influence. Also, uncontrollable external forces such as the weather do not play as important a role in influencing industrial production and therefore measures to stimulate output will more consistently show appropriate results. None the less, many countries have still faced considerable difficulties in attempts to implement industrial plans.

In some countries inadequacies in basic overhead facilities have created bottle-necks which hamper the pace of industrial expansion. Thus, in India, transport and power shortages became acute during the early years of the third plan; these adversely affected movement of coal and cement, thereby holding back the expansion in production of various commodities. The Indian experience illustrates the close links between different sectors in over-all development planning, and the need for the interdependent sectors to expand at appropriate rates if the whole planning effort is not to be impeded by a host of bottle-necks and shortages.

Shortages of industrial materials and parts have also created bottle-necks to industrial expansion in several countries. In some cases these shortages have been related to inadequate expansion in other parts of the economy. In Ceylon, for example, plans for expansion of the sugar industry were frustrated by the inadequate growth of sugar-cane production. Insufficiency of foreign exchange and resulting shortages of imported materials and parts have also held back industrial growth in several countries. Further, in several cases inadequate co-ordination and advance planning appear to have been responsible for shortfalls in the industrial sector. In India, for example, lack of adequate preparatory planning appears to have contributed significantly to shortfalls in attaining the targets for steel production. And in Ceylon, the planned expansion of fertilizer production has been held up by administrative delays in the recruitment of technical staff to operate the new plants.

Implementation of investment programmes

Progress in the implementation of investment programmes has been mixed. In some countries, the volume of fixed investment appears to have been increasing in recent years at a rate faster than planned, while in others it has been advancing more slowly (*see table 6-5*). Data are too scanty to allow of any generalization about the relative contribution of the public and private sectors to recent trends in investment; and such evidence as exists merely sug-

gests that experience has been varied. A source of widespread comment in the developing countries, however, has been the difficulties experienced in the implementation of public investment programmes; and some discussion of these difficulties may be useful.

Problems of implementing the public investment programme fall broadly under two headings, namely, shortages of financial resources—including the re-

quisite foreign exchange—and administrative and technical difficulties. While all countries are affected in some degree by the latter, in some countries the former has not been a serious problem. In several cases, in fact, it was found that budgeted funds could not be spent because of various administrative difficulties. And even where total funds have not been plentiful, it has often been found that allocations to particular sectors could not be spent owing to difficulties in implementation.

One problem often cited in connexion with implementation of public investment programmes concerns inadequacies in advance project preparation. In many cases, in fact, the projects to be undertaken have not even been known when the plans were originally

drawn up, or, if known, enough studies had not been carried out for work to begin. Thus, in Pakistan the failure of sponsoring departments and agencies to come forward with enough projects by the time the second plan was approved was said to have been a cause of delay in implementing the plan.⁵ Similarly, in Nigeria there was a shortage of adequately prepared projects in the first year of the plan; in consequence, the first year was largely devoted to project preparation.⁶ Other countries, including Ceylon and Malaysia, have also referred to such shortages as factors retarding implementation.

Inadequate project preparation has resulted both from the lack of skilled personnel and from deficiencies in the administrative machinery. Many coun-

Table 6-5. Planned and Actual Annual Rates of Increase in Gross Investment^a
(Percentage)

Country	Planned	Actual ^b
Morocco	21	7.5
Pakistan	20.5	17.0
Republic of Korea	15.5	20.3
Malaysia	11.5	20.3
Ceylon	10.5	0.7
Tunisia	9.5	13.7
Chile	9	11.8
Colombia	8.5	4.4
China (Taiwan)	7	12.1
Sudan	5	23.4
Burma	2	11.1

Source: See table 2-3.

^a See foot-note *a* to table 2-1 and foot-note *a* to table 2-4.

^b Refers to plan years for which data are available. Years are as indicated in table 6-1, except for Colombia (1960-1962) and Pakistan (1960/61 and 1961/62).

tries have taken specific measures to try to remedy shortcomings arising from these sources. As far as skilled personnel is concerned, the solution in the short run has usually been to import foreign technicians and experts; government agencies have engaged foreign engineering firms and consultants to supervise the preparation and execution of projects.

Several countries have sought to strengthen their planning machinery so as to reduce delays in initiating and completing projects. Units have usually been designated within each ministry with responsibility for the preparation of realistic programmes. Attempts have also been made to keep up to date checks on progress in programme implementation. Periodic reviews of actual performance have served to identify sources of difficulty or delay in implementation and to emphasize the importance of improving performance; they have also provided the

occasion for the redirection to other projects of surplus funds arising from likely under-spending. It is clear that systematic efforts along these lines are needed if plan implementation is to be effective. Among countries with a number of years of planning experience, this problem has been well recognized and solutions have been sought. It still appears, however, that many countries lack effective machinery for project studies and for effective progress control, and are not yet sufficiently aware of their importance for effective plan implementation.

Inadequacies in existing budgetary procedures are another problem that has often adversely affected progress in plan implementation. There has been a

⁵ See A. Waterston, *Planning in Pakistan* (Washington, D.C., 1963).

⁶ See Federal Government of Nigeria, *First Progress Report on the Development Plan, 1962-1968* (Apapa, March 1964), page 3.

need to link fiscal budgets to development plans, to co-ordinate the planning and budgetary processes at the technical level and to co-ordinate the activities of executive departments. In Nigeria, for example, it was noted in the *First Progress Report* that traditional budgetary procedures were inadequate for the effective implementation of the development plan. It was pointed out that the old system of annual capital budgeting was inadequate for the new disbursements and selective controls envisaged in the six-year plan, and that new procedures were required. Many countries have, in fact, attempted to meet problems of this kind by changes in their budgeting procedures. Some, for example, have tried to arrange for greater participation of planning authorities in the preparation of budgets. Some have even allowed planning authorities to participate in the supervision and control of budget implementation. In many countries, however, there is still a great deal of hesitancy about curtailing the authority of the finance ministry in the control and release of funds, and problems of effective budgetary procedure in the planning context still remain.⁷

Difficulties in adequately relating budgetary allocations to physical targets have also impaired effective implementation of plans in many countries. For budgetary purposes, financial targets are naturally employed but for planning, physical accomplishments are the relevant considerations, and the link between these has often not been sufficiently established. The absence of an adequate technical organization to establish physical performance targets and ensure their implementation has often been an important factor contributing to these difficulties. Inadequate cost estimates and insufficient attention to prospective price increases, both internal and external, are other factors which have given rise to difficulties in plan implementation. In Pakistan, for example, the tendency for actual costs to exceed original estimates has often been commented on. This was found to be due in part to the tendency of sponsoring agencies to show a favourable cost-benefit ratio when their projects were originally presented, in part to bad forecasting of price trends and in part to inefficient execution.⁸ In Burma it has been stated that the chief problem encountered in capital budgeting was a lack of realism on the part of agencies con-

cerned in estimating public expenditure.⁹ When unrealistically low estimates are presented, projects may be started which would not be undertaken if their true costs were known before commencement. In addition, faulty cost estimates of this sort can also result in wide disparities between financial and physical targets which make appraisal of performance more difficult.

The difficulty of assessing performance is aggravated by distortions resulting from price increases which cannot be foreseen at the time plans are being formulated. Since annual development budgets need to make allowance for such price increases in order that plan targets, established in constant prices, may be attained, it is necessary to keep price developments under constant review and, whenever possible, to adjust financial targets accordingly.

For a few countries, some statistical information relating to the recent performance of public investment is presented in table 6-6. It should be noted that these data refer to investment in current prices and, since prices have everywhere been rising, they overstate progress towards the fulfilment of physical targets. This fact only serves to emphasize that difficulties in implementation have generally been experienced since, even when measured in current prices, actual investment expenditure has been falling short of planned expenditure.

For the few countries listed in table 6-6, there appears to have been a considerable amount of unevenness in the relative rates of implementation in the different sectors. For all of these countries the rates of implementation of targets for transport and communications have been relatively high in relation to those for public investment as a whole; and in most cases relatively high rates of implementation have been recorded in the social services sector. On the other hand, implementation of the targets for mining, manufacturing and power has usually been well below the average for public investment as a whole. For agriculture, rates of implementation of public investment programmes have been more mixed, with those for Pakistan and Malaysia being relatively low and those for Burma, Ceylon and India being more favourable. It should be noted, however, that the data refer only to the initial years of current plans and that performance may often have improved in more recent years.

Various factors appear to have accounted for the unevenness recorded in the initial years of current plans in the rates of implementation among the different sectors. In some countries, differences in the

⁷ For further discussion of these problems, see United Nations, "Relationship between Planning and Government Budgeting in Developing Countries" (IBRW.1/L.5) and *Report of the Inter-regional Workshop on Problems of Budget Classification and Management in Developing Countries* (ST/TAO/SER.C/70).

⁸ See Mahbub ul Haq, *The Strategy of Economic Planning* (Karachi, 1963), page 187.

⁹ See E. E. Hagen, *Planning Economic Development* (Homewood, Ill., 1963), page 42.

Table 6-6. Planned and Actual Public Investment, by Major Sectors
(Percentage)

Country and item ^a	Total	Agriculture	Mining and manufac-turing	Power	Transport and communications	Services
<i>Burma</i>						
Planned allocation for four years	100	100	100	100	100	100
Cumulative implementation:						
1961/62	16	15	7	15	20	18
1962/63	37	43	25	32	44	35
1963/64 (BE)	(70)	(71)	(93)	(52)	(73)	(64)
<i>Ceylon</i>						
Planned allocation for initial four years	100	100	100	100	100	100 ^b
Cumulative implementation:						
1958/59	13	16	4	4	16	17 ^b
1959/60	28	33	15	12	36	31 ^b
1960/61 (BE)	(47)	(54)	(32)	(36)	(51)	(53) ^b
1961/62 (BE)	(73)	(78)	(53)	(79)	(74)	(79) ^b
<i>India</i>						
Planned allocation for five years...	100	100	100	100	100	100
Cumulative implementation:						
1961/62	15	15	13	14	20	14
1962/63	34	33	29	32	45	32
1963/64 (BE)	(56)	(53)	(52)	(56)	(71)	(49)
<i>Malaysia^c</i>						
Planned allocation for five years...	100	100	100	100	100	100
Cumulative implementation:						
1961	14	9	21	14	18	10
1962	37	29	41	41	46	39
1963 (BE)	(64)	(54)	(71)	(79)	(75)	(49)
<i>Pakistan</i>						
Planned allocation for five years..	100	100	100	100	100	100
Cumulative implementation:						
1960/61	14	11	12	15	15	12
1961/62	30	21	24	36	35	28
1962/63 (BE)	(54)	(42)	(43)	(62)	(62)	(52)

Source: See table 2-3.

^a BE: Budget estimate.

^b Housing, education, health and social welfare only.

^c Refers to investment by the Federal Government only; excludes defence expenditure.

administrative capacity of various departments and agencies seem to have been an important factor giving rise to these imbalances. In other cases, shortages of foreign exchange needed for specific projects have retarded progress in specific sectors.

It should also be noted that in some countries the divergent rates of implementation among sectors were due to an explicit reassignment of priorities. Thus, in India investments in transport and communications and power were carried out ahead of schedule because of the strains on these facilities during the first year of the plan. It became evident that inadequate transport facilities were obstructing the smooth movement of materials within the country, thereby adversely affecting production in various industries. The decision was therefore taken to ac-

celerate the railway and road programme.¹⁰ Similarly, a power shortage developed and became a bottle-neck to industrial expansion, and it was therefore decided to step up the power programme.¹¹ In Malaysia, as well, the decision was taken early in the plan period to give priority to the transport and communications and power sectors, and allocations to these sectors were increased to levels above the original plan targets.

¹⁰ The onset of military emergencies also affected the issue. See Government of India, *The Third Plan Mid-term Appraisal* (New Delhi, 1963), page 17.

¹¹ In India an additional factor has been the inability of some states to raise resources on the scale envisaged in their plans. There has consequently been some tendency to shift funds as between different heads of development contrary to the scheme of allocations agreed to in the plan. *Ibid.*, page 3.

Domestic saving and fiscal policies

In reviewing progress in plan implementation, a point of considerable interest is whether the performance of domestic saving has measured up to expectation. However, the brevity of the time period covered by the data available for most countries makes any generalization about recent performance very hazardous. Such data as exist reflect short-term changes and cannot be taken as indicative of trends during current plan periods. Moreover, changes in the level of domestic saving are inextricably bound up with the whole question of inflation. An increase in the level of domestic saving may be associated with inflationary pressure arising from increased investment; but since plans generally set targets for domestic saving on the assumption that domestic prices will remain stable, such an increase cannot be unequivocally interpreted as progress towards achievement of the target. To assess the significance of recent changes in domestic saving, detailed studies of recent developments in each country would have to be undertaken, and these are beyond the scope of the present report.

Recent changes in domestic saving are shown for a number of countries in table 6-7. In such countries

Table 6-7. Planned and Actual Changes in Gross Domestic Saving in Relation to Gross Domestic Product^a

Country	Annual change in gross domestic saving as percentage of gross domestic product		Marginal rate of gross domestic saving (percentage)	
	Planned	Actual ^b	Planned	Actual ^b
Republic of Korea....	2.4	0.9	49	11
Ceylon	1.1	—	33	12
China (Taiwan)	0.9	1.7	24	33
Morocco	0.9	-1.2	34	-5
Chile	0.7	1.6	29	14
Colombia	0.6	-1.5	35	4
Sudan	—	1.4	9	29
Malaysia	-0.7	-2.0	-12	-54

Source: See table 2-3.

^a See foot-note *a* to table 2-1, foot-note *a* to table 5-2 and foot-note *a* to table 5-4.

^b Refers to plan years for which data are available; see foot-note *b* to table 6-3.

as Burma, Chile, China (Taiwan) and the Sudan, recent increases have exceeded the planned targets; in the other countries listed in the table, they have fallen short of them. For the reasons just noted, however, it is difficult to attach significance to these divergences between recent performance and plan targets.

Perhaps recent changes in the public component of total domestic saving can be commented upon with somewhat greater assurance. Recent actual changes in public saving expressed as a percentage of gross domestic product are shown in table 6-8 and

Table 6-8. Planned and Actual Annual Changes in Public Saving as Percentage of Gross Domestic Product^a

Country	Planned	Actual ^b
Republic of Korea.....	0.7	0.8
Chile	0.5	0.4
United Arab Republic.....	0.5	— ^c
Ceylon	0.3	-0.1
Colombia	0.2	-1.4
Sudan	0.1	2.3
Burma	-0.6	-0.3
Malaysia .....	...	-1.0
India .....	...	-0.5
Pakistan .....	...	0.2
China (Taiwan) .....	...	-0.5
Morocco .....	...	-0.7

Source: See table 2-3.

^a For definitions underlying plan data, see foot-note *a* to table 5-6. In some cases, data for actual changes are not strictly comparable with those for plan data.

^b Refers to plan years for which data are available. Years are as indicated in table 6-1, except for Colombia (1960-1962), India (1960/61-1962/63) and Pakistan (1960/61-1962/63).

^c Refers to ordinary budget of Government.

are compared, wherever possible, with planned changes. It will be seen that in a few countries such as Burma, the Republic of Korea and the Sudan, recent changes in public saving have been roughly in line with, or have exceeded, planned changes. In most countries, however, this does not appear to have been so; in fact, contrary to the assumptions generally made in plans, public saving has tended to decline in a number of countries.

The tendency for changes in public saving to fall short of the planned changes has generally been occasioned by the fact that current expenditure has advanced much more sharply than was assumed in plans. In most of the countries for which the relevant data are available, this has clearly been true; thus, in Burma, Ceylon, Chile, Colombia and the United Arab Republic, the ratio of current expenditure to gross domestic product has been increasing during the initial years of their plans at a considerably higher rate than planned (see table 6-9). The same is also known to have been true in India.¹²

¹² *Ibid.*, page 33.

Table 6-9. Planned and Actual Elasticities of Current Revenue and Expenditure^a

Country	Current revenue		Current expenditure	
	Planned	Actual ^b	Planned	Actual ^b
Republic of Korea....	2.5	0.9	1.4	0.7
Colombia.....	1.7	0.4	1.5	1.8
Ceylon (B)	1.2	1.5	0.9	1.8
Chile	1.0	0.9	0.6	0.8
United Arab Republic	1.0	2.7 ^c	0.5	2.8 ^c
Ceylon (A)	0.9	1.5	0.5	1.8
Sudan	0.9	0.7	1.5	0.8
Burma	0.2	1.0	0.6	1.3
China (Taiwan) .....	...	0.9	...	0.8
India .....	...	2.5	...	3.9

Source: See table 2-3.

^a For definitions and differences in concepts, see foot-note *a* to table 2-1 and foot-note *a* to table 5-8.

^b Refers to plan years for which data are available; see foot-note *b* to table 6-8.

^c See foot-note *c* to table 6-8.

The most general reason why current expenditure has increased more rapidly than assumed in plans has been the failure to make detailed studies of the likely trend in the components of expenditure at the time of plan formulation. Very broad assumptions about current expenditure have been made and these have almost invariably erred on the conservative side. The additional current expenditure that inevitably results from public investment programmes has often not been taken into account when plans have been drawn up. Further, there has often been a tendency for progress in the implementation of public investment programmes to be greater in the social and administrative sectors than in the economic sectors; and investment in the former tends to generate greater increases in recurrent expenditure than does investment in the latter. It is, of course, also possible that unexpected events may have caused some rearrangement of priorities, giving rise to higher levels of current expenditure. Thus, in India unexpected increases in defence expenditure were largely responsible for the rise in current expenditure.¹³ Finally, in some countries, unexpected increases in prices have necessitated the upward revision of planned levels of current expenditure.

Recent trends in revenue have generally revealed a more favourable picture. Data on both planned and actual changes in total revenue are available for only five countries but in at least three of these, recent increases in revenue in relation to gross domestic product have roughly equalled or exceeded the planned increases (see table 6-9). Data on recent changes in tax revenue are available for a larger number of countries and these again indicate that

recent trends in tax revenue have frequently been quite favourable (see table 6-10).

Table 6-10. Planned and Actual Elasticities of Tax Revenue^a

Country	Planned for total taxes	Actual ^b		
		Total taxes	Indirect taxes	Direct taxes
India	2.2	2.9	3.1	2.6
Republic of Korea....	2.0	1.0	1.0	0.9
Colombia	1.6	0.3	0.2	0.4
Ceylon (B)	1.1 ^c	—	—	—
Ceylon (A)	0.8 ^c	1.5	0.9	4.0
United Arab Republic	0.8	2.8 ^c	3.5 ^c	1.4 ^c
Burma	0.2	1.0	-0.4	5.2
Chile .....	...	1.0	0.9	1.0
China (Taiwan) .....	...	0.9	0.8	1.6
Malaysia .....	...	-0.3	-2.4	6.4
Pakistan .....	...	0.7	...	...

Source: See table 2-3.

^a For definitions and differences in concepts, see foot-note *a* to table 2-1 and foot-note *a* to table 5-8.

^b Refers to plan years for which data are available; see foot-note *b* to table 6-8.

^c See foot-note *c* to table 6-8.

The increase in tax revenue in relation to gross domestic product has been particularly high in Ceylon, India and the United Arab Republic. And it is interesting to note that, in these countries, this has been accompanied by high rates of increase in yields from indirect taxes relative to gross domestic product. In most countries the responsiveness of yields from direct taxation to increases in gross domestic product has also been quite high, but since the bulk of tax revenue is derived from indirect taxes, it is the performance of receipts from the latter which has largely determined trends in total revenue.

As discussed later, a number of countries have experienced quite favourable trends in export earnings during recent years while imports have generally risen strongly. These trends in the foreign trade sector have undoubtedly contributed significantly to the buoyancy of tax receipts, since tax yields generally depend quite heavily on export and import duties as well as on the direct taxation of export profits. In some countries, however, the growth in tax revenue also owes something to the introduction of new taxes and the revision of existing tax rates. Both India and Pakistan, for example, made explicit provision in their plans for new taxes to help finance development expenditure, and new measures were introduced in the first two or three years of their current plans. In India, the introduction of new fiscal measures received added impetus from the decision to increase defence expenditure. The additional taxes have so far been yielding revenue in

¹³ *Ibid.*

excess of the amounts originally planned, and tax revenue is consequently expected to represent some 13 per cent of national income by the end of the third plan as compared with the original plan target of 11.4 per cent.¹⁴ In Pakistan, on the other hand, the programme of additional taxation seems to have fallen behind the original target, but it appears that this was largely compensated for by the unexpected buoyancy of receipts from existing taxes.¹⁵

Several other countries have also devised new taxes or have revised tax rates in attempts to implement the planned targets for tax revenue. In the United Arab Republic, for example, customs duties were raised several times in the first two or three years of the plan period. And in Colombia extensive tax increases were introduced in 1963, including an income surtax of 20 per cent for the years 1962 and 1963, a sales tax of 3 to 10 per cent on all items except food, drugs and export products, and a forced bond subscription by banks equal to 5 per cent of their deposits. It appears, however, that these were largely emergency measures in response to budgetary difficulties and the general lag in tax revenue. It will be recalled that for Colombia tax revenue fell well behind plan targets during the first few years of the plan period.

In some countries, including Chile and Morocco, a general reform or rationalization of the tax system has been attempted in order to make it more responsive to the needs of development. Thus, during 1961 and 1962, a series of bills were introduced in Chile designed to modify the land, income, inheritance and gift taxes and to simplify various tax laws with a view to ensuring better administration and

¹⁴ Additional taxes are expected to yield 24 billion rupees or about 7 billion more than the original target. *Ibid.*, pages 33 and 34.

¹⁵ During the first three years of the plan, additional taxes yielded only 580 million rupees as against the target of 1,750 million rupees for the five years of the plan. See Government of Pakistan, *Mid-Plan Review of Progress in 1960/61-1961/62 under the Second Five-Year Plan* (Karachi, 1962).

the closing of various loop-holes in existing laws. Some of these have become law. In Morocco, tax reforms during 1962 included the replacement of the land tax by an agricultural tax assessed on the potential revenue of the land,¹⁶ simplification of trade and professional taxes and an increase in business taxes. Also, the transactions tax of 3 per cent has been superseded by an 8 per cent tax on products.

It is well known that among developing countries indirect taxes have provided the main sources of public revenue. In many cases, there appears to have been a tendency to emphasize indirect taxes still further in recent attempts to raise additional tax revenue. This is evident, for example, in Burma, India, Pakistan, the United Arab Republic and Venezuela. Several factors seem to account for this tendency to rely on indirect taxes. Among these are administrative convenience and the desire to grant income-tax incentives to promote investments. In some countries, as for example India and Pakistan, indirect taxes have also been relied upon to restrain domestic consumption and divert commodities to the export market.

One aspect of taxation which still seems to require a great deal of attention in many countries is the administration of the tax machinery. In many cases tax laws are outmoded and archaic, and do not meet the needs of current requirements; as was noted previously, some countries have been trying to remedy this by rationalization of their tax systems. In addition, however, weak and ineffective tax administration has sometimes undermined the effectiveness of relatively well-conceived tax laws and, as a consequence, tax evasion has often considerably reduced the tax intake. Several countries have made attempts to deal with this problem. Thus, in India an intensive drive was recently initiated to check tax evasion, and it has been expected that the number of tax assessees would consequently increase by nearly one-third.

¹⁶ This applies only to the larger farms.

Foreign trade

RECENT CHANGES IN THE BALANCE OF PAYMENTS

It is through the external sector that progress in the implementation of targets is most likely to be affected by events beyond the control of governments. Both the trend in export earnings and the inflow of foreign capital are, in large part, dependent on events elsewhere. These, moreover, influence progress towards targets within the domestic economy both directly and through their determination of the volume of imports that can be financed.

Performance of exports

For the developing countries as a whole, as has been noted in chapter 1, trends in exports during the present decade have so far been comparatively favourable. The annual rate of growth in the volume of their exports has been greater than that recorded during the nineteen fifties, while the trend in their export unit values has, on the whole, been relatively more stable. This has reflected the recent buoyancy in world demand for a wide range of primary commodities.

However, the magnitude and the timing of the rise in world demand have varied considerably among commodities. For some commodities, such as sugar, world demand and prices rose strongly in 1963 and subsequently declined in 1964. Other commodities, such as non-ferrous metals and coffee, benefited little from the growth in world demand until 1964.

Accordingly, among the countries reviewed in this chapter, there has been considerable diversity in the performance of exports during the first few years of their current plans. For these countries, annual changes in the volume and value of merchandise exports between the first year of their plans and the end of 1963 are shown in table 6-11 and compared

Table 6-11. Planned and Actual Annual Rates of Growth in Merchandise Exports^a
(Percentage)

Country	Planned	Actual ^b	
		Quantum	Value
Republic of Korea.....	27	50.9	46.2
China (Taiwan)	11.5	9.0	27.6
Burma	7.5	...	6.3
Chile	6.5	3.8	3.4
United Arab Republic.....	6.5	...	1.9
Colombia	5.5	1.7	-1.2
Morocco	5	1.5	2.0
Sudan	4.5	...	9.2
Pakistan	4	...	0.4
Tunisia	4	...	6.7
India	3.5 ^c	7.9	7.3
Ceylon	2.5	3.0	-0.2
Malaysia	-0.5	5.9	-2.5

Source: See table 4-2.

^a See foot-note *a* to table 4-2.

^b Refers to plan years for which data are available. Years are as indicated in table 6-1 except for Malaysia (1960-1963), the Sudan (1960/61-1963/64) and the United Arab Republic (1959/60-1963/64). Growth rates of value of trade are computed from data in dollars.

^c See foot-note *b* to table 4-2.

with plan targets. It will be seen that, for some countries during the years up to 1963, the annual rate of growth in the value of exports was exceeding the rate assumed in plans; these countries include China (Taiwan), India, the Republic of Korea, the Sudan and Tunisia. But in a greater number of countries, the annual rate of growth was less than planned. However, reflecting the timing of recent increases in world demand for particular primary commodities, a number of these countries experienced a considerable improvement in the performance of their exports during 1964; this, for example, applies to Chile, Colombia, Morocco and the United Arab Republic.

Though external conditions have probably been dominant in determining recent developments in exports, this is not to say that policies for export promotion have been without influence. A number of countries have recently taken vigorous measures to encourage the expansion of exports. For example, in India the institutional framework for export promotion was strengthened by the establishment in 1962 of a new Department of International Trade, followed by the creation of a Board of Trade to review and advise in all aspects of trade. A Quality Control and Pre-shipment Council was also constituted to raise the standards of export products. At the same time, a number of fiscal measures have been taken, including a reduction of the export duty on tea, and increases in excise duties on several commodities in order to restrict internal consumption. Moreover, while the tax rate on companies has been increased from 45 to 50 per cent, earnings from exports have been excluded from the increase. Further measures for export promotion have included a substantial budget allocation for the development of new markets abroad. It appears that some of these measures must have had a favourable impact on recent export performance although it is probable that their full effect remains to be felt. The plan called for a considerable expansion in exports of new lines of manufactures and while, in the early years of the plan, performance was disappointing, a strong upward trend appears to have developed in the past two years.¹⁷ It should be borne in mind, however, that traditional exports have played a major role in the recent expansion.

In Pakistan, the export bonus schemes appear to have had some success in stimulating exports of non-traditional products and manufactured goods. Thus, during the first four years of the plan, exports of these products increased by over 100 per cent, contributing up to 50 per cent of the increase in total export earnings.¹⁸ To strengthen the competitive position of these commodities a high level body was recently set up by the Government to suggest measures for reducing their costs of production; the committee is to study manufacturing processes and compare Pakistan prices with those of other countries.

For several other countries special export promotion measures also seem to have met with some success. In the Republic of Korea the increase in exports has no doubt been related to the policy of indirectly subsidizing exporters by allocating ex-

¹⁷ Between 1960/61 and 1962/63 exports of "new manufactures" actually declined considerably in value, from 253 million rupees to 171 million rupees. This downward trend, however, was later reversed and, during the first eight months of 1964/65, these exports amounted to 318 million rupees. See India, Ministry of Finance, *Economic Survey, 1964-65* (New Delhi, 1965).

¹⁸ See State Bank of Pakistan, *Bulletin* (Karachi), August 1964, page 59.

change proceeds to them whereby losses could be more than recouped by profits from sales of imports. The establishment of an export encouragement subsidy fund to grant subsidies to selected products, the highest rate being paid to new products, seems also to have contributed to this development; and the same can be said of the policy of reducing by 50 per cent income-taxes payable by specified businesses earning foreign exchange. And in China (Taiwan), where industries which export 50 per cent or more of output are exempt—or entitled to reductions—from business taxes, similar encouragement to export seems to have produced favourable results.

No less important than specific export promotion measures, however, have been general policies affecting trends in domestic production. Indeed, in the long run these are the essential means of ensuring an adequate expansion of export earnings. Thus, even among countries where specific export promotion policies seem to have borne fruit, the expansion would not have materialized if domestic production had not responded adequately. Specific promotion policies can therefore only serve as adjuncts to broader policies designed to stimulate production and output in the economy, and this is well recognized by most countries which have used these export promotion measures. As might be expected, among countries where export performance has been less favourable than planned, problems affecting the production of export commodities have frequently been important.

Performance of imports

In almost all countries, merchandise imports have been increasing at a substantially faster pace than envisaged in plans. This is true whether imports are measured in terms of volume or value (*see* table 6-12). Thus, while the planned rate of growth in domestic income and output has generally not so far been attained, the planned increase in imports has been exceeded.

Recent trends in imports bear out the conclusion reached in chapter 4 that plans had generally made very optimistic assumptions about the likely increase in import requirements. It will be recalled that a large number of countries assumed that the planned increase in imports relative to the planned increase in gross domestic product, when expressed as a ratio, would be less than one. But in most countries actual developments in recent years have caused imports to advance more strongly than domestic income and output, belying the assumptions made in plans (*see* table 6-13). For several countries, the contrast between plan targets and actual outcome has been particularly striking. In China (Taiwan),

Table 6-12. Planned and Actual Annual Rates of Growth in Merchandise Imports^a
(Percentage)

Country	Planned	Actual ^b	
		Quantum	Value
Pakistan	14.5	15.7	16.5
Morocco	7	7.6	9.7
Republic of Korea	6	31.1	33.1
Tunisia	4.5	...	2.6
Chile	4	13.3	9.7
Malaysia	4	5.8	5.7
India	3.5 ^c	3.1	1.1
China (Taiwan)	3	8.2	7.3
Colombia	2.5	-3.0	-0.6
Sudan	2	...	17.7
Ceylon	1.5	-6.7	-6.9
Burma	1	...	0.9
United Arab Republic	-1	...	9.6

Source: See table 4-2.

^a See foot-note *a* to table 4-2.

^b Refers to plan years for which data are available. See foot-note *b* to table 6-11.

^c See foot-note *d* to table 4-5.

Table 6-13. Planned and Actual Elasticities of Merchandise Imports^a

Country	Planned	Actual ^b
Pakistan	3.7	3.4
Malaysia	1.4	1.6
Morocco	1.2	1.8
Republic of Korea	1.1	6.8
Chile	0.7	3.5
India	0.6	1.0
Colombia	0.4	-0.6
China (Taiwan)	0.3	1.2
Ceylon	0.2	-1.6

Source: See table 4-2.

^a For definitions and differences in concepts, see foot-note *a* to table 2-1 and foot-note *c* to table 4-5.

^b Refers to plan years for which data are available. Years are as indicated in table 6-1.

for instance, the increase in imports relative to gross domestic product has been about four times as great as planned, while in the Republic of Korea it has been still larger. In the United Arab Republic, the plan had assumed a reduction in the volume of imports but, although information is available only about the value of imports, this expectation has clearly not been realized.

The general tendency for imports to rise more strongly than projected has arisen mainly from unplanned increases in imports of consumer goods. It will be recalled that plans generally assumed very low, or even negative, rates of change in imports of consumer goods. Targets for imports of consumer goods have often been derived residually as the balancing item between estimated require-

ments of imported capital goods and raw materials on the one hand and estimated foreign exchange receipts on the other. It has been assumed that these targets would be rendered feasible through the accelerated growth of import-substituting production in the field of consumer goods, including food. These assumptions, however, have not been realized and imports of consumer goods have frequently risen strongly.

These trends are roughly indicated by the data shown in table 6-14. The data are subject to the

Table 6-14. Actual Annual Rate of Growth in Value of Merchandise Imports, by Major Commodity Groups^a

(Percentage)

Country	Total	Capital goods	Intermediate goods	Consumer goods
Republic of Korea	33.1	71.6	21.7	33.8
Pakistan	29.7	36.5	25.3	29.2
Sudan	16.3	12.0	14.9	19.3
Morocco	13.2	16.2	3.0	11.1
China (Taiwan) ...	10.9	2.5	13.2	23.5
Chile	9.7	15.8	8.5	4.7
Malaysia	5.7	16.4	-0.8	5.2
Tunisia	2.9	11.7	15.4	-7.1
India	0.7	3.5	0.6	-4.0
Colombia	-0.6	-1.2	3.5	-3.1
Ceylon	-6.9	-4.9	-2.4	-8.7

Source: See table 4-2.

^a Refers to plan years for which data are available. Years are as indicated in table 6-1 except for India (1961-1963), Malaysia (1960-1963), Morocco (1959-1963), Pakistan (1959-1963) and the Sudan (1960-1963). Data are generally grouped according to the Standard International Trade Classification as follows: consumer goods, groups 0, 1, 6 except 67-69, 732.01 and 8; intermediate goods, groups 2-5; capital goods, 67-69 and 7 except 732.01.

Growth rates are calculated from data in national currencies; because they are derived elsewhere from data expressed in dollars or because of differences in time period, they differ in some cases from similar computations shown in other tables.

usual qualification that the time periods covered are very brief; within these time periods imports have fluctuated sharply from year to year. Further, the data measure imports in current prices whereas plans have set targets for imports in constant prices. It appears, however, that, with certain exceptions, import prices have changed only slightly in recent years.

In several countries, increased imports of food have contributed strongly to the unplanned advances in imports of consumer goods. In the United Arab Republic, for example, it had been proposed to reduce imports of food over the course of the current plan period, but in the first four years imports actually doubled. Similarly, in India, large increases in food imports resulted from the poor performance of domestic agriculture; these, however, were largely

covered by commodity aid from the United States under Public Law 480. But other classes of imports have also contributed to the unexpectedly strong growth in total imports. In some countries, for example, increases in imports of intermediate goods needed to sustain domestic production have risen strongly, probably exceeding plan targets.

Not every country, it will be noticed, has experienced an upward trend in imports during recent years. In particular, imports into Ceylon—whether measured in volume or value—have declined almost continuously since 1960. An important contributory factor was the fact that receipts from foreign aid turned out to be less than estimated because of the outflow of foreign private capital and the withdrawal of financial assistance by some donor countries following the nationalization measures undertaken by the Ceylon Government. As a result, a critical scarcity of foreign exchange reserves developed. The fall in foreign exchange reserves was further accelerated by the rise in import prices of food. In 1960 and 1961, the Government imposed severe restrictions on imports and the use of foreign exchange, and later on, in 1962 and 1963, these measures were supplemented by a comprehensive system of import controls. Since 1963, all imports, with the exception of food-stuffs and drugs, have been subject to strict individual licensing.

Other countries have, of course, also been obliged to take measures to restrict imports in view of their strong upward trend. These have usually taken the form of more stringent import controls, or restraints on domestic expenditure. In the United Arab Republic, however, imports have been handled by a state monopoly since 1961 and have thus been fully controlled by official policy. Pakistan stands as an exception to this trend since an import liberalization policy was adopted at the beginning of the current plan period as part of a general policy of decontrol throughout the economy. The unusually rapid growth in imports into Pakistan over recent years has probably been an outcome of this policy.

The recent balance of payments situation

For a number of countries, the deficits in the balance of payments recorded in the first few years of their current plans have been less than assumed. While the volume of imports has generally risen strongly, import prices have been relatively stable or have even declined slightly. At the same time, appreciable increases in export earnings have been experienced as a result of higher export prices, increases in export volume, or both. In other words, some improvement in export volume or the terms of trade has helped to moderate the influence of an increasing volume of imports on the balance of payments deficit.

The actual deficits in the balance of payments which have been recorded by individual countries in recent years are shown in table 6-15; and these

Table 6-15. Planned and Actual Deficit in Balance of Payments on Current Account^a
(Annual average in millions of dollars)

Group and country ^b	Planned amount ^c	Actual	
		Period	Amount
<i>Countries where actual deficit has been greater than planned</i>			
Chile	75	1961-1963	211
Colombia ^d	114	1961-1963	125
Sudan	58	1961-1963	65
Republic of Korea.....	293	1962-1963	298
<i>Countries where actual deficit has been smaller than planned</i>			
Bolivia	62	1962-1963	52
China (Taiwan)	102	1961-1963	72
India	1,113	1961-1963	774
Ethiopia ^e	44	1962-1963	30
Nigeria	224	1962-1963	138
Malaysia	88	1961-1963	45
Pakistan	698	1960-1962	278
Burma	60	1961-1963	-9
Ceylon .....	...	1959-1963	44
Tunisia .....	...	1962-1963	105
United Arab Republic....	...	1960-1962	205

Source: See table 4-11.

^a Balance of payments on current account refers to balance of goods, services and private donations. Minus sign indicates surplus.

^b Countries are listed in the order indicated in table 6-16.

^c For Bolivia, Chile, Colombia, the Republic of Korea and the Sudan, data refer to annual averages for a shorter period than that underlying the figures given in table 4-11; in the latter table, the data are annual averages of the whole plan period. For further explanation, see text.

^d Excluding private donations.

^e Including official donations.

have been compared with the deficits projected in plans. A word of caution is necessary regarding interpretation of these data. In a number of plans, the projected deficits have been estimated for each year of the plan and it has therefore been possible to achieve a high degree of comparability between the planned and the actual data. But for other countries, the projected data refer to the plan period as a whole. Comparison of the planned annual average deficit with the actual deficit experienced over no more than part of the plan period may therefore be subject to some qualification, since it may have been assumed that capital inflows would be greater in some years than in others. The initiation in particular years of some very large projects to be financed by foreign capital, for example, could give rise to this situation.

Some insight into the factors accounting for the deficits shown in table 6-15 can be obtained if account is taken of the means by which such deficits have been financed. Such information is presented in table 6-16 where, for the purpose of comparison with the assumptions made in plans, the actual changes on capital account have been expressed as percentages of the planned annual deficits.

It is significant that among all the countries where the actual deficit was greater than planned in recent years, movements of official short-term capital played a substantial part in financing the deficit. In other words, resort had to be made to drawings on foreign exchange reserves, compensatory financing and other emergency arrangements in order to meet current account deficits. This was particularly true of Chile and Colombia.¹⁹ And it is notable that in Chile this occurred even though the net inflow of both official and private long-term capital exceeded plan expectations.

Among some of the countries where current account deficits were less than assumed in plans, recent experience has been quite the opposite. Thus, in Burma, China (Taiwan), Ethiopia and Malaysia, there was some increase in net official short-term assets. Although the net inflow of long-term capital did not measure up to expectations in all these countries, it appears that export earnings were none the less sufficient to contribute to some easing of the balance of payments situation. Thus, in China (Taiwan) the unexpectedly high export earnings in 1963 were clearly an important factor in reducing the need for capital inflow. And Burma's high export earnings in 1962 and 1963 had a similar effect.

Whatever the experience relating to the over-all balance of payments situation, it is apparent that the net inflow of long-term capital has generally fallen short of expectations. For some countries, the net inflow of private long-term capital has been exceptional in this regard; in Chile, Colombia, Malaysia and the Sudan, recent inflows of private capital have been greater than assumed in plans. There have, however, been fewer exceptions when recent trends in the net inflow of official capital are considered. In Chile, Ethiopia and the Republic of Korea, the inflow of official capital has either exceeded or has not fallen far short of expectations. But in all the other countries shown in table 6-16 the net inflow of official capital has been considerably less than assumed in plans.

¹⁹ In Chile an exchange crisis in late 1961 resulted in the temporary suspension of all "luxury" imports, emergency borrowing and eventual devaluation of the escudo. And in Colombia an exchange crisis in 1962 occasioned severe restrictions on imports, emergency borrowing and eventual devaluation.

Table 6-16. Planned and Actual Financing of Deficit in Balance of Payments on Current Account^a
(Percentage)

Group and country ^b	Planned ^c				Actual ^d				
	Total	Official grants and long-term capital	Private capital	Official short-term capital	Total	Long-term		Short-term	
						Official grants and capital	Private capital	Official capital	Private capital ^e
<i>Countries where deficit has been greater than planned</i>									
Chile	100	55	45	—	280	148	67	71	-7
Colombia	100	74	26	—	131	10	49	81	-9
Sudan	100	81	10	10	112	66	16	31	-1
Republic of Korea.....	100	83	14	3	103	77	8	17	1
<i>Countries where deficit has been smaller than planned</i>									
Bolivia	100	...	...	...	75	46	35	-1	-6
China (Taiwan)	100	94	22	-16	70	80	11	-28	7
India	100	f	—	—	70	67	—	5	-3
Ethiopia	100	68	32	—	67	70	18	-11	-10
Nigeria	100	62	38	—	62	26	24 ^g	11	g
Malaysia	100	45	36	19	51	17	61 ^h	-18	-10
Pakistan	100	...	...	...	40	35	4	1	—
Burma	100	57	8	...	-15	32	-9	-32	-5

Source: See table 4-11.

^a Data reduced to annual averages and shown as percentage of total planned deficit. See also foot-note ^a to table 6-15.

^b Within each group countries are listed in descending order of actual deficit as percentage of planned deficit.

^c See foot-note ^c to table 6-15.

^d Data refer to period indicated in table 6-15.

^e Including errors and omissions.

^f Official grants and loans are expected to predominate.

^g Private short-term capital included with private long-term capital.

^h For 1963, including errors and omissions.

For many countries the inability to obtain a sufficient volume of foreign aid has undoubtedly been the reason underlying the shortfall in official capital inflows. However, an additional, though closely related, reason has been the frequent inability of borrowers to meet the conditions on which such aid is extended. The larger part of foreign aid takes the form of project loans and, although such aid has been offered, many countries have found themselves unable to prepare a sufficient volume of projects to the specifications required by donor countries or institutions. In Nigeria, for example, the plan assumed that 50 per cent of public investment would be financed by foreign loans whereas, during the first

year of the plan, only 14 per cent of a greatly reduced programme was so financed. The main reason lay in the inability to elaborate project plans in sufficient detail to meet the requirements of lenders. In India and Pakistan, this was similarly the principal reason accounting for the shortfall in the net inflow of official capital during the first years of their current plans. Although there appears to have been considerable improvement in the very recent past, in the first years aid disbursements consistently tended to lag behind commitments. In India, for example, less than 65 per cent of the official loans authorized during the first three years of the plan were utilized.

Summary and conclusion

Recent progress in the implementation of national development plans has been rather mixed, but gains have been made and useful experience has been accumulated from which future performance should benefit. For a majority of countries the rate of expansion of gross national product has been lower than planned; and expressed in terms of *per capita* income this lag has been especially marked. It is to be recalled, however, that the periods of plan im-

plementation have generally been quite short and that complete information about experience since 1963 has not been generally available. Preliminary indications are that the year 1964 in many respects showed a distinct improvement over the record for 1960-1963.

Over the years, it has become increasingly apparent that two of the key hindrances to growth

confronting a great many developing countries are the inflexibility of domestic agricultural production and the scarcity of foreign exchange. The inflexibility of domestic agriculture, it should be noted, has not been a problem affecting production of agricultural commodities for export; on the contrary, the trend in production for export has generally been more than adequate to keep pace with the slow growth in world import demand for such commodities. It has been in production of food for the domestic market—which generally is concentrated in the subsistence sectors of the rural economy—that the inflexibility in supplies has been encountered. The current plans of almost all developing countries contain ample evidence that the importance for economic growth of overcoming this problem has been widely recognized. Yet it remains true that the growth in output recorded over recent years has generally been disappointingly small.

It need hardly be repeated that the accelerated expansion of food production is one of the most complex and intractable of the problems facing developing countries. It is not merely a question of greater investment in agriculture or of enlarging the supply of current inputs, such as fertilizers and improved seeds; it is at least as much a question of creating the social and institutional conditions within which the peasant will have an adequate incentive to raise output and improve the productivity of his land. For many countries, land reform must be a principal element in the creation of these conditions; but progress in land reform has often been exceedingly slow.

It is true, however, that there is no single measure that can solve the problem of agricultural production. The problem is compounded of human, social and technical aspects; and the solution must lie in a combination of measures to strengthen incentives, disseminate knowledge about modern techniques and provide the means for their utilization. Recent agricultural policies in some countries have been experimenting with the co-ordinated execution of a combination of measures in selected areas; and experience so far would suggest that, wherever resources are very scarce, this approach may be more effective than either the concentration of policy on selected measures, such as agricultural extension services, or the diffusion of combined measures over very wide areas.

The persistent foreign exchange scarcity which confronts most developing countries also has its origins in the structural rigidities characteristic of these countries. Given these rigidities, efforts to accelerate economic growth tend to generate sharply increasing requirements for imported supplies of strategic commodities. But since the actual and prospective expansion in foreign exchange earnings

is limited, planners in most countries have been faced with a dilemma: either a modest target for domestic economic growth has had to be set or very optimistic assumptions have had to be made about the likely increase in import requirements or about the future level of foreign aid. Perhaps understandably, most plans have been based on the latter two choices. It will not be surprising, however, that recent experience has generally belied the assumptions made about both import requirements and the level of foreign aid. For some countries adverse short-term movements in export earnings or capital items have, in this general situation, precipitated balance of payments crises, necessitating emergency borrowing, intensified import controls and the deceleration of domestic growth. Thanks to the recent firmness of world markets for their major primary commodity exports, other countries have been better able to avoid a sharp deterioration in their balance of payments situation. But it is to be borne in mind that, at the same time, the pace of domestic growth has generally fallen short of expectation. The dilemma of reconciling adequate domestic growth with the constraint imposed by the balance of payments persists.

In view of the strategic role of imported supplies of key commodities in economic growth, it is incumbent upon developing countries to utilize available supplies of foreign exchange as efficiently as possible; but by no means all developing countries have applied adequate restraints on less essential imports. However, it remains generally true that the underlying cause of foreign exchange scarcity originates in the structural imbalance between export capacity and import requirements. Current plans have explored the prospects for expanding exports in some detail; and, at least for some countries, measures recently adopted to promote exports appear to have been yielding encouraging results. Even with the most intensive efforts, however, the gap between export earnings and import requirements cannot but be large; and, as has been pointed out in chapter 1, the total foreign aid requirements of developing countries are still far from having been met.

For most countries, domestic agriculture and the external balance have been the dominant constraints on recent growth; and these have necessarily affected performance elsewhere in the domestic economy. Thus, while recent increases in the volume of fixed investment have sometimes compared quite favourably with planned rates of expansion, the growth in investment has in many cases been impeded by the shortfalls in foreign aid and by scarcities in imported supplies of capital equipment. At the same time, there is little evidence to suggest that domestic saving behaviour has been changing sufficiently to allow the planned increases in investment to take

place without an intensification of inflationary pressure. Recent experience in this regard would require more detailed analysis than could be undertaken in this chapter. But in so far as recent trends in public saving are any guide to the realization of planned changes in saving behaviour, they do not suggest that the implementation of plans to raise domestic saving has generally met with success.

The divergence between planned and actual changes in public saving has generally arisen more from underestimation of the likely growth in recurrent expenditure than from over-optimistic assumptions about revenue. There are invariably strong political pressures to expand recurrent expenditure and, when public revenue appears to be growing appreciably, these pressures may become more difficult to resist. But it is also frequently true that, in the process of plan formulation, there has been little attempt to make detailed studies of future needs for recurrent expenditure; and plans have therefore underestimated the likely growth in those expenditures even though increases are generally necessary for the execution of development programmes. Moreover, were these studies undertaken, they might lead—as they have in some countries attempting this exercise—to reconsideration of the relative emphasis placed in public investment programmes on projects which may generate a future need for recurrent expenditure as against projects which may generate revenue.

Recent increases in revenue have compared more favourably with plan expectations. The unexpectedly large increases in imports together with the expansion of exports have undoubtedly contributed to the buoyancy of revenue. In the few countries experiencing a strong growth in revenue, however, the main reason lies in the vigour with which new tax measures have been introduced and existing tax rates have been raised; new indirect taxes, particularly consumption taxes, have been a principal instrument for raising revenue in these countries. But it still remains true that, in general, tax reforms have not been pressed sufficiently to ensure that the growth of revenue will cover requirements for both recurrent expenditure and public investment programmes.

The implementation of investment programmes has frequently not been impeded solely by the lack of resources. Quite often, it has not been possible to utilize all the amounts budgeted for public investment expenditure or to draw on the loans obtainable from donor countries or institutions because of a lack of well-prepared plans for the initiation of new projects. This has been one of the greatest weaknesses of first attempts in comprehensive economic planning; the translation of plans into specific proj-

ects which could be implemented has been largely left aside at the stage of plan formulation; and it is only after plans have been introduced that their lack of operational content has been fully appreciated. The difficulties that confront many developing countries in remedying this defect need hardly be stressed. The preliminary surveys that often have to precede project selection, and the design and planning of projects are slow and painstaking tasks that make heavy demands on technical skills; and the integration of projects into comprehensive plans requires a machinery for the co-ordination of governmental departments which, in the first experiments with planning, most countries lack. Still, the need for such work is inescapable if comprehensive plans are to assume operational significance and public investment programmes are to be realized.

This comes close to the heart of the whole question of the contribution that planning can make to economic development. Many of the measures which developing countries have to take in order to accelerate their economic growth are evident from general observation, and no plan is required to spell them out. It needs no plan to determine, for example, that more extensive fiscal measures are required to accelerate the growth in revenue, that every effort should be made to conserve scarce foreign exchange for essential uses or that a combination of land reform and other measures is required to raise agricultural productivity. True, the formulation of a comprehensive plan can quantify the requisite increases in such economic aggregates as investment, tax revenue or foreign exchange requirements; and, in so doing, it can clarify the extent of the requisite changes in policies. An important stimulus to the formulation of many recent plans, for example, was the desire on the part of certain donor countries and institutions to have some assessment made of foreign aid requirements. The formulation and publication of a comprehensive plan, moreover, may serve an important educational function; in presenting a coherent programme of objectives and policies, it may help to concentrate national energies more effectively on the tasks of economic and social development.

But the unique contribution which planning can make to economic development lies in the co-ordination of policies rather than in their selection or adoption. By sketching in the main changes requisite for future growth, a comprehensive plan should reveal the actions which need to be taken now if future growth is not to be unnecessarily impeded by the emergence of imbalances between requirements and supplies. Some imbalances inevitably arise in the course of development because of occurrences which could not be anticipated; these are

inescapable and necessitate flexibility in planning and policies. But it is the imbalances which are foreseeable that planning can help to avoid; and in the course of development, such possible imbalances are manifold. Steel mills completed without coal supplies, new school buildings without teachers, major irrigation works without the minor works, investment programmes delayed or distorted because of inadequate supplies of imported equipment, industrial capacity under-utilized because of power or transport shortages—these are only some of the imbalances that recur time and again in the process of growth of virtually every country. But for developing coun-

tries, they represent costly inefficiency in the use of scarce resources which lessens the effectiveness of the development effort.

In summary, while plans may delineate the policies that need to be pursued in order to accelerate growth, they are in no sense a substitute for policies. Planning is a means of co-ordinating policies to ensure that resources are continuously utilized more efficiently. In most developing countries, the use of planning to serve this purpose has only recently been initiated and its benefits still largely lie in the future.

ANNEXES

Annex I

TITLES OF DEVELOPMENT PLANS

Africa^a

CONGO (BRAZZAVILLE) :

Projet du premier plan quinquennal de développement économique et social, 1964-1968. Paris, 1963.

ETHIOPIA :

Planning Board. *Second Five Year Development Plan, 1955-1959 E.C. (1963-1967 G.C.)*. Addis Ababa, 1962.

GHANA :

Planning Commission. *Seven Year Plan for National Reconstruction and Development, Financial Years, 1963/64-1969/70*. Accra, 1964.

KENYA :

Development Plan, 1964-1970. Nairobi, 1964.

MALI :

Ministère du Plan et de l'Economie rurale. *Rapport sur le plan quinquennal de développement économique et social de la République du Mali, 1961-1965*. Bamako, 1960.

MAURITANIA :

Plan quadriennal de développement économique et social, 1963-1966. Nouakchott, 1964.

MOROCCO :

Division de la Coordination économique et du Plan. *Plan quinquennal, 1960-1964.* Rabat, 1960.

NIGERIA :

Federal Ministry of Economic Development. *National Development Plan, 1962-1968.* Lagos, 1962.

SENEGAL :

Economie et plan de développement. Paris, 1962.

SUDAN :

Economic Planning Secretariat. *The Ten Year Plan of Economic and Social Development, 1961/62-1970/71*. Khartoum, 1962.

TUNISIA :

Secrétariat d'Etat au Plan et aux Finances. *Perspectives décennales de développement, 1962-1971.* Tunis, 1962.

UGANDA :

The First Five-Year Development Plan, 1961/62-1965/66. Entebbe, 1963.

UNITED ARAB REPUBLIC :

National Planning Committee. *General Frame of the 5-Year Plan for Economic and Social Development, July 1960-June 1965.* Cairo, 1960.

^a Data for Cameroon, Congo (Democratic Republic of) and Ivory Coast have been taken from United Nations, "Outlines and Selected Indicators of African Development Plans" (E/CN.14/336).

UNITED REPUBLIC OF TANZANIA:

Tanganyika Five-Year Plan for Economic and Social Development, 1st July 1964-30th June 1969. Volume I: General Analysis. Dar Es Salaam, 1964.

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Economie et plan de développement. Paris, 1963.

Asia

BURMA :

Ministry of National Planning. *Second Four-Year Plan for the Union of Burma, (1961/62 to 1964/65).* Rangoon, 1961.

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Annex II

STATISTICAL TABLES

Table II-1. Planned Annual Rates of Increase in Components of Expenditure^a
(Percentage)

Region and country	Gross domestic product	Consumption			Gross investment	Exports of goods and services	Imports of goods and services
		Total	Public	Private			
<i>Africa</i>							
Ethiopia	4.5	3.5	7.5	3.5	11.5	...	...
Ghana	5.5	5	7.5	4.5	6.5	5.5	5
Kenya	5	4.5	...	...	9	...	...
Mali	8.5	...	...	4.5	...	...	...
Morocco	6	4.5	8	5	21	3.5	7
Nigeria	3.5	3.5	10.5	3	4	...	...
Senegal	8	6.5	9	6.5	16.5	...	...
Sudan	5	5	6.5	4.5	5	...	...
Tanzania	6	4.5	5	4.5	14.5	5	6.5
Tunisia	6	3.5	...	...	9.5	...	...
United Arab Republic....	7	5	5	5	11.5	5	0.5
<i>Asia</i>							
Burma	6	5.5	4	6	2	7	1
Ceylon	6	4.5	4.5	4.5	10.5	2.5	1.5
China (Taiwan)	8	7	...	...	7	...	...
India	5.5	5	...	...	10	...	...
Iran	5.5	5	...	...	7.5	...	...
Malaysia	2.5	3.5	5.5	3	11.5	...	...
Pakistan	4.5	3.5	...	...	20.5	...	...
Philippines	6	5.5	5.5	5.5	12	2	5.5
Republic of Korea.....	6	3	4.5	3	15.5	16.5	6
<i>Central and South America</i>							
Bolivia	7	5	9	4.5	9.5	10	4.5
Chile	5.5	4.5	2.5	4.5	9	6.5	3.5
Colombia	5.5	5	6.5	4.5	8.5	4.5	4
Ecuador	6.5	5.5	5	5.5	10.5	5	4
Jamaica	5	5	...	...	5	...	...
Trinidad and Tobago....	5	5	6	4.5	2	...	...
Venezuela	6	6	2.5	6.5	8.5	...	...

Source: See table 2-1.

^a For definitions and differences in concepts, see foot-note *a* to table 2-1 and foot-note *a* to table 2-4.

Table II-2. Planned Distribution of Expenditure^a
(Percentage)

Region and country	Base and final years of plan	Gross domestic product	Consumption			Gross investment	External balance
			Total	Public	Private		
<i>Africa</i>							
Ethiopia	1961/62	100	91	...	...	11	-2
	1966/67	100	88	...	...	15	-3
Ghana	1960-1962	100	85	11	74	21	-6
	1969/70	100	81	13	68	23	-5

Table II-2. Planned Distribution of Expenditure^a (continued)

Region and country	Base and final years of plan	Gross domestic product	Consumption			Gross investment	External balance
			Total	Public	Private		
<i>Africa (continued)</i>							
Kenya	1962	100	85	...	...	14	1
	1970	100	81	...	...	18	1
Mali	1959	100	...	...	99	...	...
	1965	100	...	...	79	...	...
Morocco	1959	100	85	3	82	10	5
	1965	100	79	3	75	29	—
Nigeria	1960/61	100	91	8	83	15	—6
	1967/68	100	90	12	78	15	—6
Senegal	1959	100	96	8	88	10	—6
	1964	100	89	8	81	15	—4
Sudan	1960/61	100	92	9	83	10	—2
	1970/71	100	91	10	81	10	—2
Tanzania	1960-1962	100	88	11	78	12	—
	1970	100	80	10	70	24	—4
Tunisia	1961	100	93	...	...	24	—17
	1971	100	74	...	...	32	—6
United Arab Republic	1959/60	100	87	14	72	15	—2
	1964/65	100	79	13	66	19	2
<i>Asia</i>							
Burma	1961/62	100	84	16	67	22	—6
	1964/65	100	82	15	67	20	—2
Ceylon	1957	100	91	11	80	13	—4
	1968	100	79	9	70	21	—
China (Taiwan)	1960	100	89	...	...	20	—9
	1964	100	85	...	...	19	—5
India	1960/61	100	92	...	...	11	—3
	1965/66	100	89	...	...	14	—3
Iran	March 1955-						
	March 1962	100	90	...	...	14	—4
	September 1962-						
	March 1968	100	86	...	...	16	—2
Malaysia	1960	100	81	15	66	12	8
	1965	100	85	17	68	17	—2
Pakistan	1959/60	100	96	...	...	10	—5
	1964/65	100	91	...	...	20	—11
Philippines	1959/60	100	87	9	79	12	—
	1966/67	100	84	8	76	18	—2
Republic of Korea...	1960	100	102	16	86	14	—15
	1966	100	87	15	72	23	—10
<i>Central and South America</i>							
Bolivia	1958	100	95	9	85	15	—9
	1971	100	76	12	64	20	4
Chile	1961	100	87	9	78	13	—
	1970	100	79	7	72	18	3
Colombia	1959	100	77	6	71	19	4
	1970	100	70	6	64	25	5
Ecuador	1964	100	86	16	70	15	—1
	1973	100	79	14	65	20	—
Jamaica	1963	100	83	...	...	20	—3
	1967	100	83	...	...	20	—3
Trinidad and Tobago	1962	100	70	12	59	28	1
	1968	100	70	12	58	24	6
Venezuela	1960	100	70	12	58	19	11
	1963-1966	100	69	11	59	20	10

Source: See table 2-1.

^a For definitions and differences in concepts, see foot-note ^a to table 2-1 and foot-note ^a to table 2-4.

Table II-3. Planned Share of Gross Investment in Gross Domestic Product and Planned Incremental Capital-output Ratio^a

Region and country	Share of gross investment in gross domestic product over plan period as a whole (percentage)	Planned incremental capital-output ratio	Region and country	Share of gross investment in gross domestic product over plan period as a whole (percentage)	Planned incremental capital-output ratio			
<i>Africa</i>								
Ethiopia	14	3.3	India	12	2.2			
Ghana	22	4.1	Iran	16	2.8			
Kenya	16 ^b	3.1	Jordan	17	2.4			
Mali	18	2.1	Malaysia	16 ^c	4.0			
Morocco	16	2.7	Pakistan	16	3.7			
Nigeria	15	4.2	Philippines	16	2.6			
Senegal	15	1.8	Republic of Korea	23	3.8			
Sudan	11	2.2	<i>Central and South America</i>					
Tanzania	18 ^b	3.1	Bolivia	21	3.1			
Tunisia	31	5.2	Chile	16	2.9			
United Arab Republic ...	17 ^b	2.4	Colombia	25	4.5			
<i>Asia</i>								
Burma	21	3.4	Ecuador	18	2.8			
Ceylon	19	3.1	Jamaica	20 ^b	4.0			
China (Taiwan)	20	2.5	Trinidad and Tobago ..	26	5.1			
Venezuela			Venezuela	20	3.1			

Source: See table 2-1.

^a For definitions and differences in concepts, see foot-note ^a to table 2-1 and foot-note ^a to table 2-4.

^b Average of share in base and final years of plan.

^c Computed from data in current prices.

Table II-4. Planned Distribution of Gross Domestic Product^a
(Percentage)

Region, country and base and final years of plan ^b	Agriculture	Industry						Services		
		Total	Mining	Manufacturing	Power and communications	Transport and communications	Construction	Total	Government	Other
<i>Africa</i>										
Ethiopia										
1961/62	69	13	—	5	—	5	2	18	4	13
1966/67	63	18	—	8	1	6	3	19	5	15
Ghana										
1960-1962	49	...	5	24 ^c	—	—	—	22 ^d	...	...
1969/70	48	...	5	28 ^c	—	—	—	20 ^d	...	...
Kenya										
1962	42	23	—	9	1	9	3	35	12	23
1970	41	24	—	10	2	10	3	34	11	23
Sudan										
1960/61	57	24 ^e	—	2	—	15	7 ^e	20	...	...
1970/71	51	30 ^e	—	7	1	14	8 ^e	19	...	...
Tanzania										
1960-1962	57	16	3	4	—	5	3	27	7	20
1970	48	22	2	8	1	5	6	31	8	23
Tunisia										
1957	29	26	4	11	2	7	3	44	7	38
1971	25	31	2	16	2	4	7	44	5	39
United Arab Republic										
1959/60	29	31	1	17	1	7	4	40	11	29
1964/65	27	37	3	24	2	6	3	36	10	26

Table II-4. Planned Distribution of Gross Domestic Product^a (continued)

Region, country and base and final years of plan ^b	Agricul- ture	Industry						Services		
		Total	Mining	Manufac- turing	Power	Transport and communica- tions	Construc- tion	Total	Govern- ment	Other
<i>Asia</i>										
Ceylon										
1957	54	18 ^c	...	8	—	5	4	28	8	20
1968	48	28 ^c	...	14	1	5	9	24	7	18
China (Taiwan)										
1960	29	30 ^g	2	21	2	6	g	41 ^g	...	...
1964	26	34 ^g	2	25	2	6	g	39 ^g	...	...
Jordan										
1959	14	29	—	11	—	13	5	57	22	35
1967	20	30	—	15	—	9	6	49	14	36
Malaysia										
1960	38	22	—	14	—	5	3	39	7	32
1965	36	26	—	16	—	5	5	38	7	31
Pakistan										
1959/60	55	...	—	13	...	28	...	28	6	23
1964/65	51	...	—	16	...	28	...	30	6	24
Philippines										
1959/60	34	...	...	19	d	d	3	44 ^d	...	...
1966/67	28	...	...	25	d	d	4	43 ^d	...	...
Republic of Korea										
1960	36	...	—	13	—	...	...	...	...	...
1966	35	...	—	18	—	...	...	...	...	...
<i>Central and South America</i>										
Bolivia										
1958	35	36	13	11	1	9	1	30	8	22
1971	32	41	16	13	1	7	4	27	10	17
Chile										
1961	12	...	5	27	d	d	3	54 ^d	7	47
1970	12	...	5	29	d	d	3	51 ^d	6	45
Colombia										
1959	32	27	h	14	—	14 ^h	—	40	...	...
1970	28	32	h	18	—	14 ^h	—	40	...	...
Ecuador										
1964	39	21	3	14	1	...	3	39	...	...
1973	34	26	3	17	1	...	5	40	...	...
Jamaica										
1963	14	42	10	13	1	6	11	44	8	37
1967	13	42	9	14	1	6	11	45	8	37
Trinidad and Tobago										
1962	8	56	29 ^l	13 ^l	4	4	6	36	10	26
1968	8	56	26 ^l	15 ^l	5	4	6	37	10	27
Venezuela										
1962	7	50	23	16	2	4	5	43	9	34
1966	7	53	20	20	2	4	7	40	8	32

Source: See table 2-1.

^a For the Philippines, data refer to net national product.

^b Years in some cases differ from those stated in table II-2.

^c Construction included with manufacturing.

^d Power and transport and communications included with services.

^e Including commerce.

^f Excluding mining.

^g Construction included with services.

^h Mining included with power, transport and communications and construction.

ⁱ Petroleum refining included with mining.